

Our place. Our time.



THIRD QUARTER REPORT 2003

Renée O'Brien, sales manager, small market sales, shows off our new Web site, Aliant.net. It provides customers with a single point of access to information about our products and services.  
*(see page 6)*

# Earnings per share up 18.2 per cent on strong wireless and Internet growth



I am very pleased with the results for the third quarter. Despite an intensely competitive market, we are successfully growing wireless and Internet revenues while providing dependable and high-quality service for our customers. We are also carefully managing our expenses, maintaining a solid balance sheet,

and producing strong free cash flow from operations<sup>1</sup>. And, we remain ever alert for opportunities that will further increase shareholder value.

## Consolidated revenues rise 1.4 per cent

Consolidated revenues for the third quarter were \$646.5 million, up 1.4 per cent from the same quarter in 2002. Revenues were driven by solid performance in both the wireless and Internet segments, with growth rates of 18.2 per cent and 16.1 per cent, respectively.

Strong performance on the consumer services side of our business was partially offset by softness in the enterprise market. Product sales were down as were long distance revenues due to the continued impact of sluggish national and international economies on the contact centre industry. Local and long distance revenues continue to be negatively impacted by the price cap decision amounting to an estimated \$4 million in the quarter relative to the same period last year.

For the nine months ended September 30, 2003, revenues totaled \$1.955 billion, up 2.0 per cent over the same period in 2002.

## Earnings per share up 18.2 per cent

Earnings per share from continuing operations for the third quarter were \$0.39, up 18.2 per cent over the same period last year. Three non-recurring items mask an even stronger earnings improvement. First, as part of xwave's restructuring efforts, a pre-tax \$15.5 million charge was recorded this past quarter in line with our expectations announced in June. Second, following completion of actuarial reviews for our pension plans, we took a charge of \$1.6 million for retroactive pension expense. And third, the adverse impact of several major viruses on our network and the power outage in Ontario and Northeastern United States reduced Telecommunications EBITDA<sup>2</sup> by a further \$1.2 million during the quarter. Together, these items lowered net income by \$11 million in the third quarter and earnings per share by \$0.08.

For the nine months ended September 30, earnings per share from continuing operations were \$1.16, a decline of 18.3 per cent from 2002. However, after adjustments for non-recurring items in both 2002 and 2003, including dilution and foreign exchange gains, recognition of tax losses and other non-recurring charges, the year to date increase in EPS would have been 6.0 per cent.

## EBITDA up 1.8 per cent

EBITDA in the quarter was \$229.2 million, up 1.8 per cent from the third quarter of last year. The improvement reflects our sustained focus on keeping our costs in line with growth in revenue. EBITDA for the nine months ended September 30, 2003 was \$697.3 million, a decrease of 0.4 per cent relative to the same period in 2002.

## Financial highlights<sup>3</sup>

For the period ending September 30 (millions of dollars except per share amounts)	Three months		Nine months	
	2003	2002	2003	2002
Operating revenues	\$ 646.5	\$ 637.6	\$ 1,955.1	\$ 1,916.8
Net income applicable to common shares	\$ 53.8	\$ 45.1	\$ 160.2	\$ 196.5
Free cash flow from operations <sup>1</sup>	\$ 120.7	\$ 69.9	\$ 383.1	\$ 141.8
Earnings per average common share (basic)	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42

<sup>1</sup> Free cash flow from operations is defined as cash and cash equivalents from (used in) continuing operations, less capital investments.

<sup>2</sup> EBITDA (earnings before interest, depreciation and amortization) does not have any standardized meaning under Canadian GAAP. Please see "EBITDA defined" on page 46 for a description of how EBITDA is defined by Aliant.

<sup>3</sup> Financial highlights represent the results from continuing operations.

### **Free cash flow reaches \$380 million**

After capital investments of \$96.9 million in the quarter, we generated free cash flow from operations of \$120.7 million, bringing the year to date total to over \$380 million (\$2.76 per share). We are using a portion of these funds to purchase back 6.9 million of our company's common shares. By the end of the third quarter, we had purchased 2.5 million shares under the normal course issuer bid announced on July 23, 2003, returning \$80 million to shareholders.

### **Stratos Global sale announced**

During the quarter, we announced an agreement to sell our 53 per cent interest in Stratos Global. Although an excellent company with solid prospects, our investment in Stratos is not consistent with our strategy to focus on providing telecommunications services in Atlantic Canada. Consequently, when an opportunity arose to quickly and cleanly divest our holdings, we acted upon it. We are satisfied we received fair value for our investment. The sale, subject to regulatory approval in the United States, should be completed by the end of the year producing net proceeds of approximately \$290 million. We anticipate a gain of between \$0.55 and \$0.60 per share.

### **Leadership team strengthened**

During the third quarter we added three new and very talented people to our senior leadership team. Paul Kent joins us as senior vice president of Aliant and chief operating officer of xwave. Paul will help us strengthen our xwave business. Fred Crooks, Q.C., joins us as senior vice president, general counsel and corporate secretary. Fred will help us take our already strong corporate governance to an even higher level. And finally, Mike Roberts was appointed vice president, government relations. Mike will help us energize our relationships with governments and the regulator.

### **Dividend declared**

Our Board of Directors declared a common share dividend of \$0.275 per common share payable on December 30, 2003 to shareholders of record on December 15, 2003. The Board also declared a preferred share dividend of \$0.340625 per preference share, payable on December 31, 2003 to shareholders of record on December 15, 2003.

*The importance of our investment in technology and people was clearly demonstrated during the aftermath of Hurricane Juan. Although the hurricane left a broad swath of destruction across Nova Scotia and Prince Edward Island less than one per cent of our customers lost telephone service.*

### **Networks and people tested**

The importance of our investment in technology and people was clearly demonstrated during the aftermath of Hurricane Juan. Although the hurricane left a broad swath of destruction across Nova Scotia and Prince Edward Island, directly affecting more than 350,000 Atlantic Canadians, less than one per cent of our customers lost telephone service.

The proven dependability of our networks and the support of our workforce from all four Atlantic Canadian provinces, allowed us to ensure a timely and effective response to customers, including emergency service providers who stayed connected using our trunk mobile radio network. Since the storm we have heard from many Atlantic Canadians who expressed sincere appreciation for our reliability, our customer service, and our sense of community spirit.

It has been a very busy and very productive quarter and I am pleased and energized by our successes. I believe we have laid a solid foundation that will support continued growth and profitability for your company.



Jay Forbes  
*President and chief executive officer*  
October 24, 2003

# MD&A

*This is a discussion and analysis of the financial condition and results of operations of Aliant Inc. ("Aliant" or "the Company") for the third quarter and the first nine months of 2003. This document should be read in conjunction with Aliant's unaudited interim consolidated financial statements and accompanying notes for the period ended September 30, 2003, and with the Company's audited annual consolidated financial statements and management's discussion and analysis for the year ended December 31, 2002.*

*All amounts in this management's discussion and analysis are in thousands of Canadian dollars, except where otherwise noted.*

*This document contains certain statements and information about potential future circumstances and developments. Such forward-looking 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. Reference is made to the "Risk and risk management" and "Forward-looking statements" sections for further discussion about the inherent risks and uncertainties surrounding future expectations. 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.*

## **OVERVIEW OF THE BUSINESS**

Aliant is a communications-focused company based in Atlantic Canada. The Company operates through three segments, with a primary focus on Telecommunications and additional capabilities in Information Technology and Remote Communications.

The Telecommunications segment provides a full range of voice and data communications services including local, long distance, Internet and other wireline and wireless services. Aliant Telecom Inc. ("Aliant Telecommunications") carries out the primary business of this segment. Aliant Telecommunications is the third largest full-service telecommunications company in Canada as measured by gross revenues.

The business of the Information Technology segment is carried out through Xwave Solutions Inc. ("xwave"). xwave provides integration and software engineering, infrastructure services and product fulfillment to clients in several industry and geographic markets, including Telecommunications. xwave is an established Information Technology (IT) company, with offices in Canada, the United States and Europe.

The Remote Communications segment, as represented by Aliant's 53.2 per cent ownership of Stratos Global Corporation ("Stratos"), is expected to be disposed of in late 2003 as discussed under "Exiting non-core businesses". Stratos is a publicly traded (TSX:SGB) company offering mobile and fixed remote communication solutions to a global customer base through a combination of its own satellite and microwave telecommunications facilities and the distribution of services of other network operators. Refer to Stratos' "Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Months Ended September 30, 2003" for a more detailed discussion of Stratos and its results.

Aliant's primary objective is to maximize value to its shareholders. During 2003 Aliant's operations were strategically focused on several initiatives: exiting non-core businesses, preserving and growing revenue, continuing cost structure efficiencies and investing in human capital.

Success in achieving these initiatives has grown shareholder value. This is evidenced with the return of this value to shareholders as follows:

- The Board of Directors approved an increase of 2.5 cents in the quarterly dividend effective June 30, 2003, raising the

- annual rate to \$1.10 per common share;
- Aliant purchased and cancelled 1,335,700 shares, completing the total purchase of 1,600,000 shares permitted under a Normal Course Issuer Bid (“NCIB”) announced in July 2002; and
  - Aliant commenced a second NCIB in August 2003 allowing the Company to purchase and cancel up to 6,925,000 additional outstanding common shares before August 2004.

Refer to the “Financial and capital management” section of this document for a complete discussion of dividends and progress under the NCIB.

### **Exiting non-core businesses**

Last year Aliant announced its intention to focus on its core Telecommunications operations and the activities below reflect that decision:

- January 1, 2003, the Emerging Business segment was dismantled;
  - January 1, 2003, Aliant transferred Innovatia Inc. (“Innovatia”) from the Emerging Business segment to the Telecommunications segment for operating and reporting purposes;
  - April 2003, Aliant’s 29.3 per cent interest in iMagicTV Inc. (“iMagicTV”) was sold;
  - May 2003, the assets of Prexar LLC (“Prexar”) were sold; and
  - August 2003, subsidiaries of AMI Offshore Inc. (“AMI”) were sold. AMI has virtually no operations following the sale of the subsidiaries and Aliant is in the process of divesting of AMI at September 30, 2003.
- August 2003, Aliant Telecom Inc.’s 50 per cent interest in 3618412 Canada Inc. (“SableCom”) was sold; and
- Aliant Energy Services Inc. (“Aliant Energy Services”) was wound up in September 2003.

Aliant has recorded a year to date gain on sale, net of taxes, of approximately \$8.9 million on the disposal of its non-core investments listed above, which is included in the results from discontinued operations. For a more detailed description of the operations of the above noted companies, refer to Aliant’s management’s discussion and analysis for the year ended December 31, 2002.

### **Information Technology**

On January 24, 2003, Aliant announced that it would seek a partner and buyer for its Information Technology business, xwave. Aliant held discussions with several potential buyers, but none were able to satisfy all of Aliant’s conditions. As announced on June 19, 2003, Aliant concluded that it was better for its customers, employees and shareholders to retain and restructure xwave.

With the decision to retain xwave, a comprehensive restructuring plan was prepared and executed with the objectives of restoring profitability, improving productivity, realigning xwave’s strategy with Aliant’s and simplifying xwave’s business model. The restructuring plan reviewed all elements of the business including leadership, business processes, systems and organizational structure. A restructuring charge of \$15.5 million was recorded in the third quarter. The restructuring charge was comprised of severance and related benefits for over 200 employees, as well as equipment lease cancellation penalties and real estate rationalization costs.

### **Remote Communications**

On September 18, 2003 Aliant announced that it had entered into an agreement to sell its 53.2 per cent ownership in Stratos. On October 6, 2003 Aliant sold 26,141,024 Subscription Receipts to a syndicate of underwriters led by RBC Capital Markets at a price of \$13.00 per receipt. Each Subscription Receipt represents an agreement to acquire one common share of Stratos following receipt of approval of the sale by the U.S. Federal Communications Commission (“FCC”). The total purchase price is payable in two equal instalments. The first instalment was received on the purchase date and the second will be paid upon receipt of regulatory approval. Total gross proceeds to Aliant from the offering will be \$339.8 million. These funds will be deployed in a manner consistent with Aliant’s objective to maximize shareholder value.

If approval by the FCC is not granted on or before February 1, 2004, the first instalment will be returned to the holders of the Subscription Receipts together with interest thereon. The disposition of Aliant’s investment in Stratos will be terminated, and Aliant will then assess its alternatives for maintaining or disposing of this investment.

The sale of Aliant’s investment in Stratos is consistent with its strategy to exit non-core investments. Stratos has become increasingly independent of Aliant and, with its formidable market presence and strong operating capability, is well positioned to successfully continue with its evolution and growth. Upon completion of this sale transaction Aliant’s Remote Communications segment will cease to exist and will be presented as discontinued operations.

### **Progress towards other strategic initiatives**

With the exit from non-core businesses well underway, progress has also been made on the remaining strategic initiatives of preserving and growing revenue, continued cost structure efficiencies and investing in human capital. Some of the significant developments regarding these strategic initiatives during the first nine months of 2003 are as follows:

- The launch of Aliant.net – Aliant.net provides a single point of access to information about Aliant products and services, enables customer self-service, and provides access to online media, applications and content all from a single Web site;
- The launch of the Aliant brand – which included Aliant signage conversion on major corporate buildings in each of the four Atlantic Provinces, launch of a major advertising campaign designed to increase public awareness of Aliant Telecommunications' products and services and agreements with some of its top dealers to redesign their existing stores to become Aliant branded stores;
- Introduction of new Internet services – Anti-spam, anti-virus, personal firewall and parental control services increase value to customers and enhance the profitability of broadband;
- Continued productivity improvements – As Aliant moves towards its goal of attaining an industry leading cost structure, initiatives such as contact centre integration, reduction of maintenance costs, renegotiation of vendor contracts and improvements to credit and collection processes contribute to overall efficiency. Additionally, the Bell Canada relationship continues to generate ongoing productivity savings;
- Commitment to Voice over Internet Protocol (VoIP) solutions – In conjunction with Bell Canada and Nortel, Aliant Telecommunications will begin transition to a new VoIP network, investing over \$40.0 million in the next five years as customer demand, needs and technological availability dictates;
- The launch of the BlackBerry® 6750™ handheld from Research In Motion – The new Blackberry operates on Aliant Mobility's CDMA 1X network and features wireless email, cell phone, text messaging, and browser and organizer functionality all in a single handheld device;
- Introduction of innovative solutions – Aliant is the first company in Canada to use Microsoft's new Windows Messenger (instant messaging client) product. Microsoft recently recognized Aliant for its work as a pioneer in introducing this Enterprise Instant Messaging service, benefiting employees through increased connectivity and as an optimum communications tool; and
- Implementation of the Aliant Achievement Award – This award is performance based and is designed to recognize and reward individual employees or teams for outstanding contributions that impact the business.

### **Senior management changes**

During the past nine months, Aliant has had several senior management changes.

Retirements in 2003 include:

- Barrie H. Black, vice president, general counsel and corporate secretary in March;
- Harry Connors, vice president of communications and public affairs in June; and
- Bob Neal, senior vice president of business development announced his retirement in September.

Robyn Tingley was appointed vice president, communications and public affairs in June 2003. Robyn brings tremendous skill and energy to her new role and will contribute valuable leadership to Aliant's external and internal communications programs.

Mike Roberts was appointed vice president, government relations in September 2003. Mike brings a broad base of experience in telecommunications and a strong track record of results to this new role. Mike has held a number of leadership roles in strategic planning, logistics and real estate, collective bargaining, carrier services, field services and business transformation. In addition to his broad knowledge of Aliant's business, Mike has direct experience working with government and regulatory issues and will aid Aliant in fostering stronger government ties.

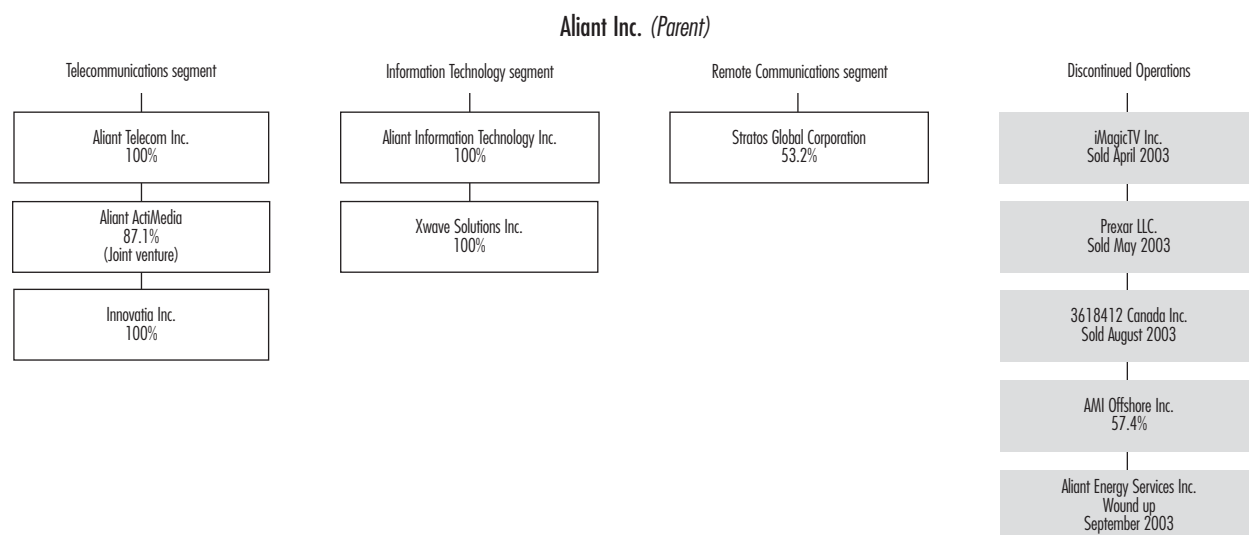
Fredrick Crooks, Q.C., joined Aliant as senior vice president, general counsel and corporate secretary in September 2003. Fred's extensive background in administrative law and expertise in the fields of public policy development, legislative strategy, and local government law, will add strength to Aliant's senior management team. As corporate secretary, Fred will interact and advise Aliant's Board on matters of corporate governance, regulatory compliance, risk management, and material disclosure and will play an important role in charting the Aliant's strategic course.

In September 2003, Paul Kent accepted the role of senior vice president of Aliant and chief operating officer of xwave, replacing Rod Wark, who left the company in January 2003. Paul possesses significant industry expertise in business development and growth, performance, and strategic planning. Paul will drive the ongoing revitalization of xwave, helping the company achieve new levels of client service, operational effectiveness and sustained profitability.

Stratos announced on September 11, 2003 that its Board of Directors appointed James Parm as president and chief executive officer. James replaced Carmen Lloyd who early in the year announced his intention to retire by year end. Prior to the appointment, James was Stratos' chief operating officer. He possesses a proven track record of delivering solid performance, including successfully integrating mergers and acquisitions, while creating additional value for shareholders. Mr. Parm's leadership and vision will be valuable in advancing Stratos' growth in the mobile and remote communications sector.

### Aliant's legal and operating structure

The accompanying chart reflects the Company's segments and discontinued operations, and the main corporate entities or joint ventures in each of these segments for the first nine months of 2003. This chart also shows the percentage of voting securities or joint venture interest that Aliant currently holds, directly or indirectly, in these entities. As a result of recent divestures the structure has become significantly more streamlined and more operationally integrated than before.



## OPERATING RESULTS

### Consolidated operating results

The following is a summarized discussion of the consolidated operating results for the three and nine months ended September 30, 2003. A more detailed discussion of the items that impact operating revenues and expenses is included in the "Operating results by segment" section.

### Operating revenues

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Telecommunications	\$ 460,459	\$ 465,502 <i>(reclassified)<sup>1</sup></i>	(1.1)	\$ 1,354,393	\$ 1,344,698	0.7
Information technology	82,213	83,180	(1.2)	276,990	308,361	(10.2)
Remote communications	136,620	128,215	6.6	432,082	383,504	12.7
Other and eliminations	(32,796)	(39,306)	16.6	(108,376)	(119,807)	9.5
	\$ 646,496	\$ 637,591	1.4	\$ 1,955,089	\$ 1,916,756	2.0

Robust wireless and Internet growth during the first nine months of 2003 has positively contributed to Telecommunications' total revenue. Partially offsetting this growth are lower local and long distance revenues as a result of regulatory impacts and lower other revenue due to the absence of Internet help desk revenues, as that service is now provided by the Information Technology segment, and lower product sales. The timing of product sales resulted in Telecommunications total revenues being below the prior year for the third quarter and above for the first nine months.

<sup>1</sup> The 2002 results have been reclassified to reflect the impact of discontinued operations as required under Canadian generally accepted accounting principles (Canadian GAAP) to conform to the presentation adopted in the current year.

Weak economic conditions affecting the Information Technology industry and reduced service revenues, due in part to the indirect effect of the divestiture process undertaken by Aliant during the first half of the year, have contributed to declining revenues year over year. Signs of stabilization are beginning to emerge, as revenues for the third quarter are more in line with the prior year.

Remote Communications' revenue continues to show strong growth resulting from new contracts, expansion of the customer base and responding to customers' increased needs for remote communications solutions.

### Cost of operating revenues

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		<i>(reclassified)<sup>1</sup></i>			<i>(reclassified)<sup>1</sup></i>	
Telecommunications	\$ 43,716	\$ 58,182	(24.9)	\$ 124,990	\$ 153,351	(18.5)
Information technology	28,906	27,463	5.3	102,774	118,153	(13.0)
Remote communications	89,071	83,069	7.2	280,621	244,971	14.6
Other and eliminations	1	(93)	101.1	1	(338)	100.3
	\$ 161,694	\$ 168,621	(4.1)	\$ 508,386	\$ 516,137	(1.5)

The decrease in Telecommunications' cost of operating revenues is reflective of reduced product sales and the absence of Internet help desk revenues.

Changes in cost of operating revenues for Information Technology are also a reflection of product sales. Product sales are \$15.5 million below the prior year for the first nine months but for the third quarter are \$1.9 million above the same period in 2002.

Remote Communications' cost of operating revenues increased in correlation to revenue growth and product sales mix.

### Operating expenses

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		<i>(reclassified)<sup>1</sup></i>			<i>(reclassified)<sup>1</sup></i>	
Telecommunications	\$ 199,973	\$ 190,542	4.9	\$ 601,495	\$ 559,312	7.5
Information technology	49,319	67,176	(26.6)	169,917	184,252	(7.8)
Remote communications	18,684	18,407	1.5	57,343	57,237	0.2
Other and eliminations	(27,864)	(32,268)	13.6	(94,832)	(99,946)	5.1
	\$ 240,112	\$ 243,857	(1.5)	\$ 733,923	\$ 700,855	4.7

Telecommunications' operating expense increase was mainly attributable to higher pension expense of \$11.6 million for the third quarter and \$31.1 million for the first nine months of 2003. In addition, increases to salary and benefits and other expenses due to inflationary pressures and amortization of wireless commissions and subsidies were offset by the results of productivity gains, savings from continued close working relationships with Bell and cost reduction initiatives.

The reduction in Information Technology's operating expenses result mainly from an \$11.3 million impairment charge in the third quarter of 2002 to reflect the revised value of assets. As well, the new cost structure in 2003 resulting from the downsizing and restructuring activities undertaken during the year, reduced salaries and benefits and other operating expenses.

Remote Communications' operating expenses have increased over the same periods in 2002 due to the overall growth in revenues of this business. This increase was mitigated by the effect of foreign exchange upon translation of the US dollar results into Canadian dollars.

## Depreciation and amortization

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		(reclassified) <sup>1</sup>			(reclassified) <sup>1</sup>	
Depreciation and amortization	\$ 108,299	\$ 109,364	(1.0)	\$ 326,268	\$ 320,557	1.8

Depreciation and amortization increased throughout the year due to the higher proportion of capital investment in recent years being in broadband and wireless assets, which have depreciable lives as short as three years. In the third quarter, this increase is offset as some software application assets became fully depreciated.

## Restructuring charge

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Restructuring charge	\$ 15,500	\$ —	—	\$ 15,500	\$ —	—

During the third quarter of 2003, the Information Technology segment incurred a \$15.5 million restructuring charge. This charge was comprised of severance and related benefits, equipment lease cancellation penalties and real estate rationalization costs.

## Gain on foreign exchange

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Gain on foreign exchange	\$ —	\$ —	—	\$ —	\$ 23,944	—

A gain on foreign exchange was incurred in relation to Stratos in the first six months of 2002. Commencing July 1, 2002, Stratos qualified as a self-sustaining operation as discussed under the "Accounting policy changes" section of the Company's 2002 annual management's discussion and analysis. Gains and losses on foreign exchange resulting from translation of Stratos results into Canadian dollars are no longer recorded in earnings after that date but recorded as cumulative translation adjustments in shareholders' equity in accordance with Canadian GAAP.

## Other income (expenses)

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		(reclassified) <sup>1</sup>			(reclassified) <sup>1</sup>	
Gain on dilution of reduction in ownership interest in Stratos	\$ —	\$ —	—	\$ —	\$ 32,525	—
Investment writedowns	—	—	—	—	(5,599)	—
Gain on sale of investments	—	—	—	—	2,200	—
Miscellaneous charges	2,074	(720)	—	1,582	(978)	—
Other income (expenses)	\$ 2,074	\$ (720)	—	\$ 1,582	\$ 28,148	(94.4)

Other income on a year to date basis is significantly lower than the prior year due mainly to the impact of items outside the normal course of operations as identified above. Miscellaneous charges include various sundry expenses, such as the gain (loss) on sale of property, netted with interest income. The increase in miscellaneous charges over the prior year is due to an increase in interest earned relating to the settlement of prior years' claims for Scientific Research and Experimental Development investment tax credits.

## Interest charges

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		(reclassified) <sup>1</sup>			(reclassified) <sup>1</sup>	
Interest charges	\$ 25,431	\$ 30,400	(16.3)	\$ 78,859	\$ 96,177	(18.0)

In addition to repayments made in 2002, Telecommunications repaid \$72.5 million in debentures and bonds in the first nine months of 2003, reducing its interest expense by \$2.2 million and \$4.6 million over the third quarter and first nine months of 2002 respectively.

Remote Communications' reduction in interest expense represents most of the reduction in consolidated interest charges, \$2.6 million for the third quarter and \$14.1 million for the first nine months. As a result of Stratos' equity issue in May 2002 a repayment of US\$92.0 million was made to Stratos' bridge facility. Since that time, scheduled and additional payments of US\$10.0 and US\$41.2 million have been made in the fourth quarter of 2002 and in the first nine months of 2003 respectively. As well, Stratos pays interest at LIBOR plus a bank margin fee. Between January 2002 and February 2003 the bank margin fee has been reduced by 1.75 per cent, from 3.75 per cent to 2.00 per cent, as a result of meeting certain conditions under the terms of the bank credit facilities and due to an amendment to these facilities. The LIBOR rate also fluctuates and has declined in 2003 by 0.30 per cent. Together, the result of the decrease in outstanding debt and the decline in the interest rate has contributed to the decrease in interest expense.

## Income taxes

### Calculation of effective tax rate

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Net income from continuing operations	\$ 56,159	\$ 47,476	18.3	\$ 167,330	\$ 203,694	(17.9)
Addback:		(reclassified) <sup>1</sup>			(reclassified) <sup>1</sup>	
Income taxes	36,447	34,770	4.8	111,131	110,769	0.3
Non-controlling interest	4,928	2,383	106.8	15,274	20,659	(26.1)
Net income from continuing operations before income taxes	\$ 97,534	\$ 84,629	15.2	\$ 293,735	\$ 335,122	(12.3)
Effective income tax rate	37.37%	41.09%	(9.1)	37.83%	33.05%	14.5

Aliant's consolidated income tax provision has increased in correlation with the changes in net income from continuing operations and the changes in the effective income tax rate as detailed below.

### Factors impacting effective income tax rate

For the period ended September 30	Three months		Nine months	
	2003	2002	2003	2002
Statutory income tax rate (including surtax)	37.93 %	42.69 %	38.52 %	41.21 %
Federal large corporation tax	0.17	1.22	0.30	0.74
Tax rate change on future tax asset	1.04	0.28	0.11	(1.88)
Non-taxable loss (gain)	(0.64)	—	0.03	1.12
Non-deductible goodwill	0.04	—	0.04	—
Benefit of non-capital losses not recognized	—	0.68	—	0.22
Benefit of prior period tax loss carryforwards from Stratos	(2.96)	—	(1.63)	(3.43)
Non-taxable gain on dilution in ownership interest of Stratos	—	(0.08)	—	(2.25)
Non-taxable foreign exchange gains in relation to Stratos	—	—	—	(3.31)
Other non deductible/taxable items	1.79	(3.70)	0.46	0.63
Effective income tax rate	37.37 %	41.09 %	37.83 %	33.05 %

## Non-controlling interest

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Non-controlling interest	\$ 4,928	\$ 2,383	106.8	\$ 15,274	\$ 20,659	(26.1)
		(reclassified) <sup>1</sup>			(reclassified) <sup>1</sup>	

The absence of foreign exchange gains from Stratos' net income began in the third quarter of 2002, as previously discussed. This has resulted in a decrease in net income for that segment as compared to last year creating a similar decrease in the non-controlling interest expense recorded. The increase in the third quarter of 2003 over 2002 is a direct result of higher net income in Stratos.

### Net loss from discontinued operations

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
AMI	\$ (3,082)	\$ (48)	—	\$ (6,663)	\$ 584	—
Prexar	(267)	(1,367)	—	(4,651)	(9,375)	—
iMagicTV	—	(975)	—	7,564	(10,975)	—
SableCom	(2,097)	(169)	—	(2,434)	(507)	—
Aliant Energy Services	219	(777)	—	(760)	(1,326)	—
Net loss from discontinued operations	\$ (5,227)	\$ (3,336)	56.7	\$ (6,944)	\$ (21,599)	(67.9)

Aliant's exit from its non-core businesses has resulted in the reclassification of current and prior period results of these companies as discontinued operations. The disposition of some of these companies has contributed to a significant improvement in year to date financial results from discontinued operations as the gains or losses on the sale of the businesses are included. The after tax impacts of the gain or loss on disposition were as follows; \$10.9 million gain on iMagicTV and \$2.0 million loss on SableCom. The loss on Prexar was not material. The loss from AMI represents their operating results for the year, which have declined from the same periods last year due to the sale of their subsidiaries.

### Earnings per common share

For the period ended September 30	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Basic and diluted earnings per common share, from continuing operations	\$ 0.39	(reclassified) <sup>1</sup> 0.33	18.2	\$ 1.16	(reclassified) <sup>1</sup> 1.42	(18.3)
Basic and diluted earnings per common share, from discontinued operations	(0.03)	(0.03)	—	(0.05)	(0.16)	(68.8)
Basic and diluted earnings per common share	\$ 0.36	\$ 0.30	20.0	\$ 1.11	\$ 1.26	(11.9)

The fluctuations in earnings per common share from continuing operations for the three months and nine months ended September 30, 2003 over the same period in 2002 are primarily a result of items outside of the normal operations of the Company as identified below:

### Earnings per common share analysis

For the period ended September 30	Three months			Nine months		
	2003	2002	\$ change	2003	2002	\$ change
Continuing day-to-day operations	\$ 0.46	(reclassified) <sup>1</sup> \$ 0.38	\$ 0.08	\$ 1.23	(reclassified) <sup>1</sup> \$ 1.16	\$ 0.07
Impact of items outside the normal course of operations:						
Gain on dilution of ownership interest in Stratos, net of tax	—	—	—	—	0.19	(0.19)
Gain on foreign exchange, net of non-controlling interest	—	—	—	—	0.09	(0.09)
Gain on sale of investments, net of tax	—	—	—	—	0.01	(0.01)
Investment write-downs, net of tax	—	—	—	—	(0.03)	0.03
Tax benefit recognized from loss carry forwards	—	—	—	—	0.05	(0.05)
xwave asset impairment, net of tax	—	(0.05)	0.05	—	(0.05)	0.05
xwave restructuring charge of \$15.5 million, net of tax	(0.07)	—	(0.07)	(0.07)	—	(0.07)
Earnings per common share, from continuing operations	\$ 0.39	\$ 0.33	\$ 0.06	\$ 1.16	\$ 1.42	\$ (0.26)

## OPERATING RESULTS BY SEGMENT

### Telecommunications operating results

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		<i>(reclassified)</i>			<i>(reclassified)</i>	
Local	\$ 189,966	\$ 194,326	(2.2)	\$ 566,462	\$ 577,799	(2.0)
Long distance	98,159	99,909	(1.8)	296,762	302,993	(2.1)
Wireless	89,226	75,501	18.2	242,872	204,129	19.0
Internet	26,906	23,178	16.1	78,755	67,465	16.7
Other revenues	56,202	72,588	(22.6)	169,542	192,312	(11.8)
Total operating revenues	460,459	465,502	(1.1)	1,354,393	1,344,698	0.7
Cost of operating revenues	43,716	58,182	(24.9)	124,990	153,351	(18.5)
Net operating revenues	416,743	407,320	2.3	1,229,403	1,191,347	3.2
Operating expenses	199,973	190,542	4.9	601,495	559,312	7.5
	216,770	216,778	—	627,908	632,035	(0.7)
Depreciation and amortization	95,675	94,000	1.8	287,890	278,990	3.2
Operating income	\$ 121,095	\$ 122,778	(1.4)	\$ 340,018	\$ 353,045	(3.7)

### Operating revenues

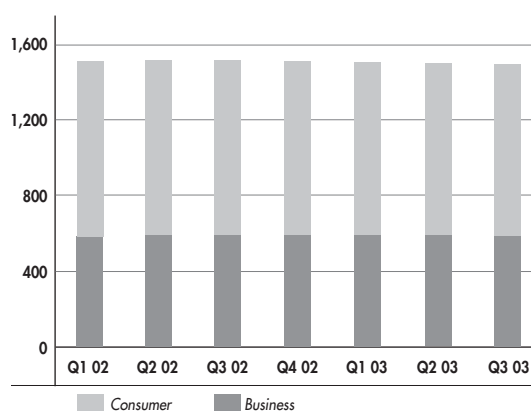
Telecommunications' growth in operating revenue over 2002 is attributable mainly to wireless and Internet, but offset by decreases in local, long distance and other revenues.

### Local revenue

Local revenues decreased due mainly to reductions in terminal rentals, competitor payments, contribution payments and directory assistance revenue.

### Wireline NAS (network access services)

(in thousands)



Our consumer NAS customer base at the end of the third quarter of 2003 was down 2.0 per cent when compared with the third quarter of 2002 contributing to an overall decline in NAS customers of 1.2 per cent for the same period.

Network access services (NAS) revenues are relatively unchanged year over year despite the decrease in the NAS customer base due mainly to the impact of pricing initiatives. Consumer NAS customers are declining year over year due to a combination of competition, regulatory restrictions on win-back promotions, replacement of consumer lines with wireless solutions, and reduction in consumer second lines due to migration from dial-up to high-speed Internet. These factors offset the seasonal increase in consumer NAS normally experienced in the third quarter as a result of students returning to university. Business NAS customers had shown steady growth in the first and second quarter over the same periods in the prior year due to growth in the small to medium sized business segment; however this was negatively impacted in the third quarter of 2003 due to the loss of one large customer to the competition as a result of regulatory pricing restrictions.

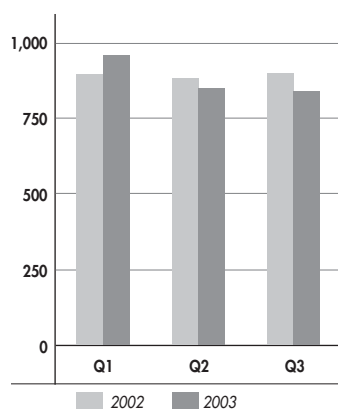
Regulatory factors negatively impacted NAS, data access, competitor payments and contribution revenues. A 2002 ruling from the Canadian Radio-television Telecommunications Commission (CRTC) resulted in contribution regime change that lowers the annual contribution rate and related revenue. In addition, the annual price changes required by the 2002 price caps decision decreased competitor payment rates and data access revenues.

Enhanced service features revenue continues to grow due to increased usage and marketing efforts, mitigating some of the decline in local revenues.

Revenues from terminal rentals have decreased over the past year as more customers decide to purchase terminals.

Directory assistance revenues are lower due to NAS losses and customers' use of alternate sources, such as the Internet.

### Long distance minutes (volume in millions)



Long distance minutes for the quarter were down 6.4 per cent when compared to the third quarter of 2003, bringing the total year to date decline to 1.0 per cent when compared to the same period last year.

### Long distance revenue

Moderate increases in year to date long distance voice revenues are due to pricing plan restructuring, and are more than offset by the negative impact of competition, CRTC mandated reductions for settlement rates (the rate paid by other telecommunications carriers for calls terminating in Aliant's region) and the general softness in the data market, especially in the enterprise segment.

Year to date long distance voice revenues increased due to consumer pricing changes, such as the capping of the minutes of the unlimited plans introduced in the second and third quarter, which offset the effect of decreased minute volumes. This is reflected in the \$0.01 increase in the average revenue per minute to \$0.09 per minute. In comparison to the same period in the prior year, business long distance minutes have increased in Atlantic Canada, in part due to growth in the small to medium sized business segment, but consumer minutes are lower as a result of planned changes in customer calling patterns, driven by pricing plan restructuring. Aliant's estimated market share of 85.9 per cent of the long distance market in Atlantic Canada at September 30, 2003 has decreased slightly compared to the same point in time in the prior year due primarily to the loss of lower margin customers due to the impacts of the pricing changes. Aliant continues to have focused price awareness and service oriented marketing campaigns in the long distance market.

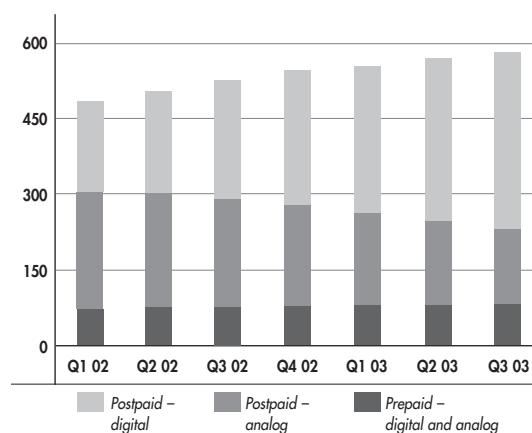
### Wireless revenue

The increase in cellular revenues is driven by increased average revenue per customer (ARPC) and continued new demand for voice and data wireless services.

#### Wireless — statistics

	2003	Three months		
		2002	change	% change
<i>For the period ended September 30</i>				
Monthly — Average revenues per customer (ARPC)				
Postpaid	\$ 55.21	\$ 51.98	\$ 3.23	6.2
Prepaid	\$ 8.13	\$ 7.85	\$ 0.28	3.6
Total	\$ 48.71	\$ 45.57	\$ 3.14	6.9
Monthly — Average minutes of use per customer	256	223	33	14.8
Churn	1.5 %	1.4 %	0.1 %	7.1

### Cellular customers (in thousands)



At the end of the third quarter, our number of cellular customers was up 10.8 per cent, year over year. Included in these results is a 50.7 per cent gain in digital customers and an 11.5 per cent gain in postpaid customers.

The growth in total ARPC results from an increase in the average minutes of use, select pricing action and more customers choosing digital service and postpaid plans. Digital customers generate higher monthly ARPC than analog, likewise postpaid customers generate higher monthly ARPC than prepaid. Postpaid ARPC is increasing as a result of increased minutes of use, selective pricing action and increased data revenues. Prepaid ARPC is also increasing as a result of recent price increases and program changes.

Customer growth remains strong at 10.8 per cent. This growth is related to the growth in new digital services and digital coverage expansion. Aliant's wireless market share of approximately 75 per cent at September 30, 2003 remains relatively unchanged over the same point in time in the prior year. At September 30, 2003 approximately 77 per cent of Atlantic Canada's population had access to Aliant's digital cellular service up from 60 per cent at the same point in time in the prior year. Digital coverage is expected to increase to 83 per cent by the end of 2003.

In addition to the increase in customers there is also a significant shift in service type to digital and postpaid, which generate higher ARPC. Currently, 61.8 per cent of all cellular customers are digital compared to 45.5 per cent for the same period in 2002. Aliant has the highest postpaid customer mix in Canada at 86.2 per cent of total cellular customers.

## Internet revenue

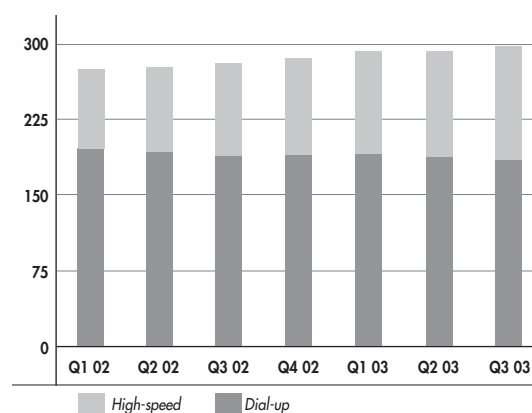
Continued customer growth and a higher ARPC have resulted in an increase in Internet services revenue.

### Internet — statistics

For the period ended September 30	2003	Three months		
		2002	change	% change
<b>Monthly — Average revenues per customer (ARPC)</b>				
Consumer dial-up	\$ 19.21	\$ 18.80	\$ 0.41	2.2
Consumer high-speed	\$ 33.30	\$ 30.97	\$ 2.33	7.5
Business dial-up	\$ 44.58	\$ 46.73	\$ (2.15)	(4.6)
Business high-speed	\$ 97.80	\$ 85.96	\$ 11.84	13.8
Churn	2.2%	2.9%	(0.7)%	(24.1)

### Internet customers

(in thousands)



Our Internet customer base grew 5.9 per cent representing high-speed customer growth of 22.6 per cent and a decline in dial-up customers of 2.2 per cent, from September 30, 2002 to September 30, 2003.

The ARPC for high-speed customers has increased due to targeted pricing initiatives as well as the migration from introductory to regular pricing in the consumer segment and increased usage in the business segment.

Competitive pricing and advertising campaigns surrounding high-speed services drive Internet customer growth. Aliant's estimated market share of the Internet market in Atlantic Canada has decreased from 67 per cent at September 30, 2002 to 65 per cent at September 30, 2003, primarily as a result of competition. On September 30, 2003 Aliant's high-speed Internet services passed 63 per cent of the homes in Atlantic Canada up from 60 per cent at the same point in time in the prior year. Aliant continues to roll out high-speed availability where warranted by customer demand. Aliant is aggressively managing an Internet churn of 2.2 per cent through new contract offers and increased customer retention activities.

## Other revenues

### Other revenues — by major category

For the period ended September 30 (thousands of dollars)	2003	Three months		Nine months		
		2002	% change	2003	2002	% change
Product	\$ 29,330	\$ 39,941	(26.6)	\$ 80,632	\$ 83,336	(3.2)
Directory	10,318	9,539	8.2	38,194	36,592	4.4
Innovatia	6,063	5,629	7.7	17,593	16,933	3.9
Internet help desk	—	5,205	—	—	16,404	—
Miscellaneous	10,491	12,274	(14.5)	33,123	39,047	(15.2)
	\$ 56,202	\$ 72,588	(22.6)	\$ 169,542	\$ 192,312	(11.8)

Revenues from product sales decreased due to the timing of call centre switch sales and IT hardware sales, which are typically large and sporadic in nature. The directory revenues increase is reflective of strong growth in the directory business across Atlantic Canada. Revenues from Innovatia increased as a result of new TeleWeb sales operations. There are no revenues from Internet help desk for 2003, as the Information Technology segment now provides that service. Miscellaneous revenues have decreased as a result of Aliant's exit from certain consulting services and lower pole rentals from the sale of poles in Newfoundland and Labrador in late 2002.

### Cost of operating revenues

The decrease in cost of operating revenues is attributable to lower per minute settlement rates, aggressive management of cost of goods sold, lower product sales and the elimination of cost of goods sold associated with the Internet help desk due to the transfer of this service to Aliant's Information Technology segment.

### Operating expenses

Pension expense increases contributed \$11.6 million and \$31.1 million to the quarterly and nine month increases in operating expenses, respectively. The year to date increase in pension expense is attributable to a change in certain pension accounting assumptions, an increase in amortization of accumulated actuarial losses of prior years, an increasing pension obligation, a lower value for pension plan assets after capital market losses in recent years and higher pensionable earnings for employees (as discussed under "Significant accounting policies").

Salaries and benefits decreased \$1.5 million for the third quarter compared to the same period in the prior year with a reduction in the vacation pay accrual due to the alignment of the vacation pay policy across the four provinces. Year to date salaries and benefits have increased \$8.4 million over the same period in the prior year as a result of cost of living adjustments, greater support for Aliant's focus on superior customer service and a higher performance incentive accrual.

Amortization of wireless commissions and subsidies increased \$2.9 million and \$7.2 million for the third quarter and year to date, respectively, due to the higher base of deferred costs, reflecting growth in wireless product sales and the increased average cost of wireless phone subsidies.

These and other operating expense increases have been partially offset by various ongoing productivity and cost reduction initiatives. Bell related initiatives include wireless advertising campaigns and market research, contact centre integration and the use of various customer contact workforce management tools. Aliant based initiatives include such activities as the consolidation of server platforms across the four Atlantic Provinces to reduce maintenance costs, renegotiation of vendor contracts and improvements to credit and collection processes.

### Depreciation and amortization

Depreciation and amortization has increased due to a larger capital base with a greater proportion of the capital investment in recent years having been in broadband, wireless and application software, having depreciable lives as short as three years. During the third quarter of 2003 certain software application assets became fully depreciated, thereby marginally reducing depreciation.

### Information Technology operating results

<i>For the period ended September 30 (thousands of dollars)</i>	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Service	\$ 50,519	\$ 53,383	(5.4)	\$ 163,951	\$ 179,833	(8.8)
Product	31,694	29,797	6.4	113,039	128,528	(12.1)
Operating revenues	82,213	83,180	(1.2)	276,990	308,361	(10.2)
Cost of operating revenues	28,906	27,463	5.3	102,774	118,153	(13.0)
Net operating revenues	53,307	55,717	(4.3)	174,216	190,208	(8.4)
Operating expenses	49,319	67,176	(26.6)	169,917	184,252	(7.8)
Restructuring charge	15,500	—	—	15,500	—	—
	(11,512)	(11,459)	0.5	(11,201)	5,956	—
Depreciation and amortization	3,000	3,242	(7.5)	8,791	9,042	(2.8)
Operating deficit	\$ (14,512)	\$ (14,701)	(1.3)	\$ (19,992)	\$ (3,086)	547.8

The decline in service revenues in 2003 compared to the same periods in 2002 is a result of the continued general decline in IT market conditions. Service revenues also suffered in the first half of the year, the period in which Aliant undertook the divestiture process for xwave, due to uncertainty amongst potential customers regarding the future of the company. These concerns have diminished following Aliant's subsequent decision to retain xwave (as previously discussed in the Information Technology portion of "Exiting non-core businesses"). The large year over year decline in product revenues is due largely to a slow down in both federal and provincial government year end spending. During the third quarter signs of stabilization began to emerge as revenues were moving in line with prior year quarterly results. xwave has recently renewed contracts with the Nova Scotia Community College and other organizations, which will sustain revenues.

New projects with clients such as the Greater Toronto Airport Authority and the Agricultural Financial Services Corporation in Alberta will begin to generate revenues in the last quarter 2003.

Cost of operating revenue has changed in correlation with product revenue. On both a quarterly and year to date basis the product sales margin has shown an improvement of one percentage point despite a very challenging and competitive market place.

Operating expenses have declined from 2002 mainly as a result of a charge recorded in the third quarter of 2002 to reflect the decline in the continuing value of xwave assets. The total charge was \$12.2 million of which \$11.3 million was recorded in operating expenses. The decline in operating expenses was also influenced by workforce reductions and a sustained focus on cost management. In January 2003, downsizing activities resulted in workforce reductions and a \$5.5 million charge to operating expense relating mainly to salaries and benefits. Following Aliant's decision to retain xwave in June 2003, a comprehensive restructuring plan was prepared and executed in the third quarter resulting in a \$15.5 million restructuring charge. This charge is comprised of severance and related benefits for over 200 employees, as well as equipment lease cancellation penalties and real estate rationalization costs. This has reduced headcount as at September 30, 2003 by approximately 17 per cent from the same point in time last year, in turn reducing operating expenses.

Information Technology's depreciation and amortization expense has decreased as some of its capital base reaches maturity, becomes fully depreciated, and is retired.

### Remote Communications operating results

#### US\$ operating results

For the period ended September 30 (thousands of US dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Mobile satellite services	\$ 75,562	\$ 58,485	29.2	\$ 230,239	\$ 175,509	31.2
Broadband services	23,491	23,532	(0.2)	72,630	68,699	5.7
Operating revenues	99,053	82,017	20.8	302,869	244,208	24.0
Cost of operating revenues	64,578	53,133	21.5	196,688	155,993	26.1
Net operating revenues	34,475	28,884	19.4	106,181	88,215	20.4
Operating expenses	13,558	11,773	15.2	40,332	34,618	16.5
	20,917	17,111	22.2	65,849	53,597	22.9
Depreciation and amortization	7,236	7,103	1.9	21,970	20,316	8.1
Operating income	\$ 13,681	\$ 10,008	36.7	\$ 43,879	\$ 33,281	31.8

Aliant's Remote Communications line of business is represented by its 53.2 per cent ownership of Stratos Global Corporation, a publicly traded company (TSX:SGB). This section should be read in conjunction with Stratos Global Corporation's "Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Months Ended September 30, 2003". Stratos and Aliant have different definitions of operating income. As a result, US\$3.2 million (CDN\$4.3 million) of other costs are included above in operating expenses but have been excluded from year to date operating income on Stratos' financial statements.

Stratos' mobile satellite service business continues to show strong revenue growth resulting from new contracts, expansion of the customer base and responding to customers' increased needs for remote communications solutions. The broadband business revenues have increased for the first nine months of 2003 compared to the same period in the prior year due to increased revenues from new contracts and increased market penetration of the very small aperture terminals. This was offset in the third quarter by a decline in offshore drilling activity resulting in broadband business revenues for the third quarter that are consistent with the same period last year. Cost of sales increased largely in accordance with revenue growth and in part due to changes in product mix. Operating expenses for the mobile satellite service business have increased due to the overall growth in the revenues of the business. The division has grown revenue while operating expenses as a percentage of revenue have declined. Operating expenses have increased in the broadband business due to start-up expenses on new contracts, geographical expansion and introduction of new products and services, all of which are expected to contribute to future growth. Restructuring activities involving transitioning costs as well as severance and retention expenses have contributed US\$3.2 million to operating expenses during the first nine months of 2003, of which US\$1.2 million was recorded in the third quarter.

As Stratos reports its results in US dollars it is necessary for Aliant to convert those results to Canadian dollars for its presentation. Accordingly, financial results may vary due to foreign exchange rate fluctuations. Stratos' Canadian dollar statements are presented below.

### CDN\$ operating results

For the period ended September 30 (thousands of Canadian dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Mobile satellite services	\$ 104,213	\$ 91,428	14.0	\$ 328,468	\$ 275,619	19.2
Broadband services	32,407	36,787	(11.9)	103,614	107,885	(4.0)
Operating revenues	136,620	128,215	6.6	432,082	383,504	12.7
Cost of operating revenues	89,071	83,069	7.2	280,621	244,971	14.6
Net operating revenues	47,549	45,146	5.3	151,461	138,533	9.3
Operating expenses	18,684	18,407	1.5	57,343	57,237	0.2
	28,865	26,739	8.0	94,118	81,296	15.8
Depreciation and amortization	9,986	11,971	(16.6)	31,383	31,904	(1.6)
Operating income	\$ 18,879	\$ 14,768	27.8	\$ 62,735	\$ 49,392	27.0

The strength in Stratos' US dollar operating results is mitigated in Canadian dollars for 2003 due to strengthening in the Canadian dollar in 2003 when translated for the purposes of consolidating into Aliant's results.

## FINANCIAL AND CAPITAL MANAGEMENT

### Summary of consolidated cash flows

Cash and short-term investments at September 30, 2003 were \$226.3 million. Aliant has generated strong cash flow throughout 2003 and anticipates that this will continue unless, and until, there are new opportunities to support its strategy either through expanded capital investments or through strategic acquisitions, which are forecasted to generate economic profit. Aliant's current plan is to deploy cash that is not required in its operations at this time in a manner consistent with its objective of returning value to shareholders. This involves the buyback of common shares under the existing NCIB in order to optimize Aliant's cost of capital while keeping its debt ratio at an appropriately conservative level.

Aliant anticipates receiving gross proceeds on disposal of its Stratos shares of \$339.8 million. This sale will close upon approval from the FCC, which is anticipated on or before December 31, 2003. When received, these funds will also be deployed in a manner consistent with Aliant's objective to maximize shareholder value.

Aliant's cash requirements for the remainder of 2003 will consist of funding for normal operations as it currently has no plans for major acquisitions. It is anticipated that Aliant will have sufficient cash flow from operating activities to provide for necessary pension funding, dividend payments, repurchases of shares under the NCIB, required capital investments and scheduled repayment of long-term debt. Scheduled long-term debt repayment of US\$10.0 million is due to be paid to external parties under the Stratos credit facilities within the remainder of 2003.

### Operating activities

#### Summary of cash flows from operating activities

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Net income from continuing operations	\$ 56,159	\$ 47,476	18.3	\$ 167,330	\$ 203,694	(17.9)
Add non-cash items	114,168	96,380	18.5	339,240	275,812	23.0
Change in non-cash working capital	47,282	23,934	97.6	128,005	(19,409)	—
Cash from continuing operations	\$ 217,609	\$ 167,790	29.7	\$ 634,575	\$ 460,097	37.9

Cash generated from operating activities for the third quarter and first nine months has increased significantly over the same periods in 2002 due to Aliant's continued focus on reducing its investment in working capital to improve financial flexibility.

## Change in non-cash working capital

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		<i>(reclassified)<sup>1</sup></i>			<i>(reclassified)<sup>1</sup></i>	
Accounts receivable	\$ (33,514)	\$ 19,439	—	\$ (15,223)	\$ 38,671	—
Income and other taxes payable	28,686	18,914	51.7	120,151	20,197	—
Prepaid expenses	9,273	5,536	67.5	(16,670)	(22,398)	(25.6)
Inventory	1,718	9,287	(81.5)	2,064	4,026	(48.7)
Accounts payable and other liabilities	40,002	(31,693)	—	43,221	(62,356)	—
Effect of exchange rate changes	1,117	2,451	(54.4)	(5,538)	2,451	—
Change in non-cash working capital	\$ 47,282	\$ 23,934	97.6	\$ 128,005	\$ (19,409)	—

Since December 31, 2002 cash generated from working capital has been \$128.0 million with \$47.3 million of this being generated in the third quarter. Income and other taxes have contributed positively to cash from working capital as a result of \$55.0 million of tax refunds received during the third quarter of 2003. These tax refunds resulted from implementation of tax planning strategies as well as the settlement of prior years' claims for Scientific Research and Experimental Development investment tax credits. Timing differences in the payment of tax instalments and receipt of tax refunds added to the remaining positive contribution from income and other taxes.

Prudent management of working capital, in particular regarding accounts receivable and accounts payable, has together generated additional cash. The increase in accounts receivable during the year is associated with increased revenues.

## Financing activities

### Summary of cash flows from financing activities

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
		<i>(reclassified)<sup>1</sup></i>			<i>(reclassified)<sup>1</sup></i>	
Net repayments of long-term debt	\$ (22,967)	\$ (16,054)	43.1	\$ (131,750)	\$ (107,469)	22.6
Net proceeds from issue (repurchase) of common shares	(78,556)	(4,626)	—	(113,205)	13,873	—
Preferred and common share dividends	(37,934)	(35,025)	8.3	(110,980)	(64,035)	73.3
Other financing activities	22,120	(2,831)	—	(42,666)	80,940	—
Cash from (used in) financing	\$ (117,337)	\$ (58,536)	100.5	\$ (398,601)	\$ (76,691)	419.7

Cash used in financing activities in 2003 has been largely related to repayment of long-term debt, common share repurchases and payment of dividends.

## Telecommunications

The most recent debt issue by Aliant Telecommunications was on January 15, 2002, when it issued \$100.0 million of 5-year notes under its shelf prospectus for the issue of new Medium Term Notes. The shelf prospectus expired in May 2003 and was not renewed at that time, as management does not foresee any need for new borrowings in the capital markets for at least the remainder of 2003.

A \$65.0 million Aliant Telecommunications' debenture matured and was repaid on June 16, 2003 and \$7.5 million of first mortgage bonds were called and repaid on July 28, 2003. No additional debt becomes due during the remainder of 2003.

Aliant Telecommunications maintains bank operating lines of credit totaling \$42.0 million, which had \$2.7 million outstanding as at September 30, 2003.

### **Information Technology**

xwave has reduced its operating and acquisition lines of credit from \$75.0 million at December 31, 2002 to an operating line of credit for \$15.0 million at September 30, 2003. There was \$1.9 million outstanding at September 30, 2003 on this line of credit compared to a balance of \$48.7 million at December 31, 2002. xwave also receives internal financing from Aliant. At December 31, 2002 the balance owing to Aliant was \$26.4 million. In the first quarter, an additional \$44.1 million was advanced to xwave and during the third quarter, Aliant invested an additional \$15.5 million in xwave by converting a portion of xwave's debt to equity. To date repayments have been made totaling \$24.0 million leaving a balance outstanding to Aliant of \$31.0 million at September 30, 2003.

### **Remote Communications**

In the third quarter of 2003, Stratos repaid US\$10.0 million of debt in accordance with its repayment schedule. In the first nine months of 2003 Stratos made US\$41.2 million in scheduled and additional repayments. These payments were split equally between the bridge and term facilities. At September 30, 2003 there is US\$7.4 million and US\$164.4 million remaining under the bridge and term facilities, respectively.

In connection with the anticipated sale of Aliant's interest in Stratos and pursuant to an amending agreement dated September 18, 2003, Aliant no longer guarantees Stratos' credit facilities in any way.

### **Corporate equity instruments**

Aliant issued \$2.2 million in common equity during the third quarter by way of its common shareholder dividend reinvestment and stock purchase plan, and the exercise of options under its employee stock option plan. Shares were purchased on the open market to fulfill the requirements of the Company's employees' stock savings plan.

Purchases under the NCIB in effect from July 22, 2002 to July 21, 2003 were completed by June 30, 2003. Aliant purchased all 1,600,000 shares permitted under this NCIB, purchasing and canceling the balance of 1,335,700 common shares during the first six months of 2003 for an aggregate price of \$37.1 million.

On July 30, 2003, Aliant announced acceptance by the Toronto Stock Exchange ("TSX") of notice of Aliant's intention to purchase, from time to time, up to 6,925,000 of its issued and outstanding common shares, which total 138,517,283 as at July 30, 2003. These shares represent approximately 5.0 per cent of the total issued and outstanding shares. Under this NCIB the Company is able to acquire, from time to time, its common shares for cash at the market price through the facilities of the TSX. Bell Canada, Aliant's majority shareholder, will sell shares into the NCIB on a pro-rata basis and the TSX has granted an exemption to Aliant to permit it to make purchases from Bell Canada on that basis. Purchases of shares under this NCIB may be made during the twelve month period commencing August 6, 2003 and ending on August 5, 2004. All common shares of Aliant purchased pursuant to this NCIB will be cancelled. The Board of Directors of Aliant believes that such purchases are in the best interest of Aliant's shareholders and a desirable use of corporate funds. As of September 30, 2003, Aliant had purchased for cancellation 2,542,153 common shares under this NCIB at an aggregate price of \$78.8 million.

Despite the lower number of shares outstanding total dividends paid by Aliant to its common shareholders in the third quarter and first nine months of 2003 were \$37.8 million and \$110.6 million an increase of \$2.9 million and \$14.4 million respectively over 2002 levels. Based on Aliant's demonstrated financial strength, its Board of Directors approved an increase in the quarterly dividend of 2.5 cents per common share in the third quarter of 2002. In addition, the Board of Directors has since approved another 2.5 cent increase to the quarterly dividend effective with the June 30, 2003 dividend, raising the annual rate to \$1.10 per common share. Dividends paid that were subsequently included in the dividend reinvestment plan were \$2.2 million and \$6.8 million for the third quarter and first nine months of 2003 respectively. Reinvestment was higher in the prior year as there was greater participation.

Aliant paid preferred shareholder dividends of \$2.4 million and \$7.2 million for the third quarter and first nine months of 2003 respectively, consistent with the amounts paid in the same periods of 2002.

## Outstanding share information as of October 21, 2003:

### Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

### Issued

(thousands of dollars)

		October 21, 2003	
	Number of shares		Value
Preference shares, series 2	7,000,000	\$	172,264
Common shares	135,367,762		1,045,131
		\$	1,217,395

A summary of the Company's stock option plan is presented below:

		October 21, 2003	
	Number of options		Weighted average exercise price
Options outstanding	2,619,166	\$	29.74
Options exercisable	1,869,983	\$	29.98

## Corporate debt instruments

In addition to the debt held by its subsidiaries, Aliant maintains lines of credit totaling \$500.0 million in aggregate with its bankers, of which \$350.0 million is a committed facility supporting the Company's commercial paper program and \$150.0 million is the total of Aliant's uncommitted operating lines. There were no balances outstanding on these lines of credit as at September 30, 2003.

## Investing activities

### Summary of cash flows from investing activities

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Capital investments	\$ (96,928)	\$ (97,855)	(0.9)	\$ (251,497)	\$ (318,313)	(21.0)
Other investing activities	(463)	1,053	—	(24,429)	7,312	—
Cash from (used in) investing	\$ (97,391)	\$ (96,802)	0.6	\$ (275,926)	\$ (311,001)	(11.3)

Cash used in investing activities consists mainly of capital investments. Cash used in other investing activities for the nine months ended September 30, 2003 has increased significantly as it reflects \$30.5 million in pension and other post employment benefit funding (pension funding discussed under "Other financial arrangements"). Offsetting the effect of the pension funding is a reduction of \$6.1 million relating to collection of long term receivables and lower deferred charges.

## Capital investments

For the period ended September 30 (thousands of dollars)	Three months			Nine months		
	2003	2002	% change	2003	2002	% change
Telecommunications	\$ 90,898	\$ 89,350	1.7	\$ 232,068	\$ 282,972	(18.0)
Information Technology	187	486	(61.5)	1,327	4,799	(72.3)
Remote Communications	5,576	7,563	(26.3)	16,676	29,760	(44.0)
Other	267	456	(41.4)	1,426	782	82.4
	\$ 96,928	\$ 97,855	(0.9)	\$ 251,497	\$ 318,313	(21.0)

## Telecommunications

Telecommunications' capital investment for the third quarter was consistent with spending in the same period in 2002. Capital spending in the nine months ended September 30, 2003 is \$50.9 million lower than for the same period in 2002. Wireline and network investment have decreased by \$35.0 million and \$26.5 million respectively, offset by a \$6.6 million increase in wireless spending and a \$4.0 million increase for fleet lease buyouts and other spending.

The decrease in wireline spending relates predominantly to broadband. The decrease in the 2003 broadband investment recognizes the significant investment in Digital Subscriber Line port capacity in 2002 and a reduction in costs from suppliers for customer premises equipment such as modems. The lower network investment level in 2003 has been largely facilitated by the completion of an intensive voice and data network build in 2002, accounting for \$18.0 million of the 2002 capital investment. The investment in wireless has increased as the digital footprint expansion continued and an increased level of investment in wireless network capacity was required to meet the robust demand experienced this year. First time investment of \$4.8 million in the 1XRTT platform also contributed to growth of the wireless capital allocation.

## Information Technology

Information Technology's capital investment for the three months and nine months ended September 30, 2003 are lower than the investment made during the same periods in 2002. Throughout the first nine months of 2002 an extensive business process re-engineering project, including an upgrade of internal business systems, occurred that resulted in a significant capital investment. In the current year, tight controls were maintained over Information Technology's capital investments in order to bring the business model in line with the current and projected information technology market conditions. The information technology industry is not highly capital intensive and capital needs are driven largely by changes in the employee base, the data processing business and customer support requirements.

## Remote Communications

Remote Communications' capital spending for the third quarter was lower than for the same period in 2002 due to upgrades in 2002 of land earth stations in England and New Zealand and network upgrades and equipment to support various contracts. Capital spending for the nine months ended September 30, 2003 was lower than the same period in the prior year due primarily to additional expenditures incurred in 2002 such as network upgrades to support the U.S. Navy contract which was awarded to Stratos in December 2001. Capital spending in 2003 relates primarily to network upgrades and enhancements to land earth stations and other broadband equipment in support of new and existing customers and services.

## Consolidated capital structure

<i>(thousands of dollars)</i>	<b>September 30, 2003</b>		<b>December 31, 2002</b>	
			<i>(reclassified)<sup>1</sup></i>	
Common equity	<b>\$ 1,407,362</b>	<b>46.2%</b>	\$ 1,498,311	44.7%
Preferred equity	<b>172,264</b>	<b>5.7%</b>	172,264	5.2%
Non-controlling interest	<b>156,660</b>	<b>5.2%</b>	164,886	4.9%
Long-term debt, including current portion	<b>1,224,273</b>	<b>40.2%</b>	1,402,769	41.8%
Short-term debt, including bank indebtedness and interest payable	<b>82,252</b>	<b>2.7%</b>	113,719	3.4%
	<b>\$ 3,042,811</b>	<b>100.0%</b>	\$ 3,351,949	100.0%

The percentage of debt to total capital was 42.9 per cent at September 30, 2003 compared to 45.2 per cent at December 31, 2002. The reduction in this ratio is due to the reduction in debt outstanding held by Aliant Telecommunications and Stratos being proportionately greater than the net reduction in Aliant's common equity as a result of the repurchase and cancellation of common shares under the NCIB.

## Other financial arrangements

### Use of off-balance sheet arrangements

Aliant uses a transfer of receivables arrangement whereby it sells certain accounts receivable to a securitization trust. Aliant considers this to be an effective and low-cost working capital management tool. The terms of the purchase and sale arrangement and accounting policy followed by Aliant are described in notes 2 and 4 to the unaudited interim consolidated financial statements for the period ended September 30, 2003.

The Company's retained interest in securitized accounts receivable as at September 30, 2003 was \$28.7 million and is included in deferred charges. This retained interest equals the amount of overcollateralization in the receivables transferred, calculated as the excess of amounts transferred of \$158.7 million over the cash proceeds of \$130.0 million. A reduction in the amount of receivables eligible for sale to the trust, due to improved collection results, caused a \$5.0 million net reduction in the proceeds to Aliant during the second quarter of 2003.

Aliant's subsidiaries also enter into various operating leases and purchase commitments for equipment, satellite capacity and other network infrastructure. The amounts of estimated future payments under such arrangements are detailed in note 16 to the unaudited interim consolidated financial statements for the period ended September 30, 2003.

#### **Use of derivative financial instruments**

Aliant's subsidiaries use certain derivative financial instruments in the management of foreign currency and interest rate exposures. Further information concerning Aliant's policy and use of derivative financial instruments is contained in note 2 to the unaudited interim consolidated financial statements for the period ended September 30, 2003.

The following derivative financial instruments were outstanding at September 30, 2003:

- Interest rate swap agreements involving the exchange of LIBOR floating interest rate on US\$145.0 million of Stratos' long-term debt obligations for fixed interest rates of 5.43 per cent in order to manage the associated interest rate exposure. Changes in the LIBOR floating interest rate since the swap commenced would have resulted in a payment of US\$7.2 million to the financial institution had the agreement been cancelled at the option of Stratos on September 30, 2003.
- Interest rate swaption agreements involving the monetization of call options are embedded in certain long-term debt obligations of Aliant Telecommunications. \$5.4 million in unamortized premium income is recorded as a deferred credit on Aliant's balance sheet at September 30, 2003 related to the swaption. Since inception of the agreements, interest rates have changed such that cancellation of the swaptions at September 30, 2003 would have required a payment of \$25.0 million to the financial institution.

#### **Pension obligations**

Aliant performs a valuation on its non-contributory defined benefit plans at least every three years to determine the actuarial present value of the accrued pension and other employment benefits. During the third quarter of 2003, the Company completed the full actuarial valuation of its defined benefit pension plans. In anticipation of the negative impacts of equity market returns and other factors on the results of the 2003 actuarial valuation Aliant began making additional contributions to the plans in the amount of \$15.6 million in the first half of 2003. Total funding requirements of approximately \$63.0 million have now been identified for 2003. During the nine months ended September 30, 2003, special deficit-funding contributions totaling \$22.4 million were made with another contribution of \$24.8 million made on October 1, 2003. The remaining required funding of \$15.8 million will be made prior to December 31, 2003. Aliant anticipates that 2004 funding will be at approximately the same level as 2003. Also as a result of the actuarial valuation, Aliant has revised its estimate of 2003 pension expense to include the amortization of additional actuarial losses identified in the valuation. Refer to the "Significant accounting policies" section under Post Employment Benefits for a discussion of the effect on pension expense.

### **SIGNIFICANT ACCOUNTING POLICIES**

Aliant's consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on the significant accounting policies used by the Company is provided in note 1 to the consolidated financial statements for the year ended December 31, 2002 and note 2 to the unaudited interim consolidated financial statements for the period ended September 30, 2003. The accounting policies and methods used are consistent with those in effect in the most recent annual audited financial statements except as explained under "Stock-based compensation and other stock-based payments".

The preparation of financial statements in conformity with Canadian GAAP requires Aliant to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the financial statements. Aliant constantly evaluates these estimates and assumptions.

Aliant bases its estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty, thus the amounts currently reported in the financial statements could prove to be inaccurate in the future.

Aliant considers the estimates and assumptions described in this section to be an important part in understanding the financial statements. These estimates and assumptions rely heavily on management's judgment, are based on factors that are inherently uncertain and thus are subject to change.

The following describes key assumptions and estimates used in significant accounting policies and changes in the accounting standards implemented during the period.

### **Post employment benefits**

Aliant and its subsidiaries provide certain pension plans and other non-pension post employment benefits to qualified employees. The amounts reported in the financial statements in relation to these benefits are determined using actuarial calculations that are based on assumptions. Significant actuarial assumptions include the discount rate, expected long-term rate of return on plan assets, rate of compensation increase, and the per capita cost of covered health care benefits. These assumptions are disclosed in note 2 to the unaudited interim consolidated financial statements for the period ended September 30, 2003. The Company reviews the appropriateness of its assumptions on an annual basis. Aliant reduced the assumed rate of return on pension assets from 9.0 per cent to 7.5 per cent and lowered the discount rate used to calculate pension liabilities from 7.0 per cent to 6.75 per cent, commencing December 31, 2002. Management believes that these assumptions are appropriate, but variances between assumptions and actual results could impact the accrued benefit obligation and related expense. Management disclosed the sensitivity of its key assumptions in note 10 to the consolidated financial statements for the year ended December 31, 2002. The change in pension assumptions adopted December 31, 2002 translates into increased defined benefit plan pension expense and reduced pre-tax earnings for the third quarter and nine months ended September 30, 2003 of \$5.4 million and \$16.2 million respectively, with an anticipated annual pre-tax increase of approximately \$21.7 million.

Aliant has also disclosed the components of annual pension expense in note 10 to the consolidated financial statements for the year ended December 31, 2002. These components include: current service cost, interest on the accrued benefit obligation and the expected rate of return on plan assets. An additional component of the expense, the amortization of past actuarial losses, would also be added except that Aliant did not amortize any losses in 2002 or 2001. However, in 2003 Aliant has amortized a portion of the accumulated actuarial losses in its pension plans. Aliant's accounting policies with respect to the recognition of amortization on these losses (or gains should they arise) follows Canadian GAAP and recognizes that future investment returns on plan assets and actuarial changes in the plans can influence the amount of the loss and can even reverse it over time. Specifically, the amortization occurs when the size of the actuarial loss (or gain) exceeds a 'corridor', which is 10 per cent of the greater of the accrued benefit obligation and the market-related value of the plan assets. Using the market-related value of the assets smoothes the effect of actual gains and losses in the plan assets over a three year period. The effect of these accounting policies is to limit the amount of amortization of both gains and losses recognized in the Company's earnings except in situations when they become exceedingly large. Aliant reported unamortized net actuarial losses totaling \$372.3 million in its pension plans at the end of 2002. The updated actuarial valuations indicate that the unamortized actuarial losses will exceed the corridor amount and therefore Aliant will be amortizing \$9.6 million of the losses through pension expense in 2003 and an estimated \$20.0 million in 2004.

The impact of the changes in management's assumptions, along with the amortization of accumulated actuarial losses of prior years, an increasing pension obligation, a lower value for pension plan assets after capital market losses in recent years and higher pensionable earnings for employees will contribute to an anticipated annual pre-tax cost of approximately \$35.9 million for defined benefit plan pension expense in 2003. This expense is estimated to rise to approximately \$55.0 to \$58.0 million for 2004. The impact of prior year unamortized actuarial losses on future pension expense cannot be determined with certainty because it will be influenced by experience in the current and future years. However, it is expected that pension expense will remain at least at the current level for the foreseeable future.

### **Impairment of long-lived assets**

The Company annually reviews the value associated with the goodwill of all its reporting units to ensure that the fair value is greater than, or equal to, the carrying value. The Company also evaluates all long-lived assets for impairment whenever indicators of impairment exist. Accounting standards require that if the sum of expected future cash flows from a company asset is less than the reported value of the asset, an asset impairment exists. The amount of impairment recognized is calculated by subtracting the recoverable value of the asset from the reported value of the asset. Any impairment to the value of these assets is charged to income in the period such impairment is determined.

Aliant uses the projected discounted cash flow method to measure impairment. The Company believes that its estimates of future cash flows and fair value are reasonable. The assumptions are based on internal planning and reflect the Company's best estimates. These assumptions are subject to inherent uncertainties that are beyond management's control, hence the results of the impairment test could be different if there is a change in assumptions or conditions. Aliant is unable to predict whether an event that triggers impairment will occur, when it will occur or how it will affect the asset values that have been reported. There have been no events or changes in circumstances throughout the first nine months of 2003 that indicate impairment of the Company's long-lived assets.

#### **Legal and regulatory contingencies**

Aliant may become involved in various litigation and regulatory proceedings in the normal course of its business. Pending litigation, regulatory initiatives or regulatory proceedings represent potential financial loss. The Company accrues potential losses if they believe the loss is probable and can be reasonably estimated. Estimates of loss are based on consultation with legal counsel and involve analyzing potential outcomes and assuming various litigation and settlement strategies. Note 17 to the unaudited interim consolidated financial statements for the period ended September 30, 2003 presents a discussion of significant contingencies outstanding at September 30, 2003.

#### **Stock-based compensation and other stock-based payments**

The accounting standard issued by the Canadian Institute of Chartered Accountants ("CICA") on stock-based compensation in late 2001 encouraged, but did not require, the use of the fair value method to account for stock-based awards, other than direct awards of stock, stock appreciation rights and similar awards with a cash settlement feature. In recognition of the demands of the financial community and the fact that standard setters in Canada and the United States are moving towards the adoption of mandatory fair value accounting, Aliant began expensing stock-based awards issued to employees subsequent to December 31, 2002 using the fair value approach. Previously, this cost was estimated and disclosed in the notes to the financial statements but not recognized as an expense in the financial statements themselves. This accounting change resulted in an additional expense for the three months and nine months ended September 30, 2003 of \$0.6 million and \$1.0 million, respectively.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model based on the weighted average assumptions for dividend yield, expected volatility, risk-free interest rate and expected life as disclosed in note 14 of the unaudited interim consolidated financial statements for the period ended September 30, 2003.

#### **Directory revenues**

Industry practice reflects two alternative practices concerning the recognition of directory revenues and expenses: 1) recognize the revenue and expense upon issuance of the directory and 2) defer the revenue and expense and amortize over the period of circulation of the directory. Aliant recognizes the revenue upon issuance as the requirements for performance are complete at that time and all related receivables become due. The revenues fluctuate from quarter to quarter based on the volume of directories issued, and are traditionally highest in the second quarter due to the timing of the release of directories in its large market areas. The matching principle is also adhered to as the related costs are expensed when the revenue is recognized.

#### **Wireless customer acquisition costs**

CICA guidance on the accounting treatment of customer acquisition costs allows for two alternative and acceptable accounting practices; 1) expense as incurred and 2) defer and amortize these costs over the life of the customer contract. Aliant has chosen to defer and amortize over the life of the customer contract as the Company feels this provides for a better matching of the costs with the future revenue stream being generated from the customer contract.

### **RISK AND RISK MANAGEMENT**

While management is confident about the Company's long-term prospects, the risks and uncertainties noted in this section could have a negative effect on the financial condition or results of operations of Aliant or its subsidiaries. The risks noted may not be exhaustive as there may be others that Aliant is currently unaware of or presently considers insignificant to its consolidated operations.

#### **Holding company structure**

Aliant Inc. is a holding company that does not directly engage in any significant business operations. The Company derives its revenues through the operations of its subsidiaries. The Company's cash flow and its ability to satisfy its financial undertakings and obligations is dependent upon dividends or other distributions it receives from its subsidiaries. Currently these distributions are primarily received through the Aliant Telecommunications segment.

### **General economic conditions**

Changes in general economic conditions, consumer confidence and spending affect the demand for Aliant's communication products and services. In particular, a downturn in general economic conditions could affect the performance of Aliant's Information Technology and components of the Telecommunications business. Weak industry and economic conditions could lead to:

- lower than anticipated demand for system integration consulting and information technology products;
- lower than expected growth in data revenue, because of softer demand from enterprises and wholesale customers;
- lower than anticipated long distance and wireless revenues due to decreased usage; and
- increased credit risk of customers thus increasing the provisions for uncollectible receivables.

The existence of these conditions or the emergence of new conditions could reduce revenues or increase costs, negatively impacting results. The Company constantly monitors economic conditions and implements strategies to mitigate risks or adjust assumptions used in recording the effects of these risks on the Company's results.

### **Changing technology**

Aliant operates in an industry that experiences constant technological change, driven by rapid advances in technology, evolving industry standards, customer demands and short product life cycles. A timely response to changing technology presents Aliant with the opportunity to obtain gains in new high growth revenue areas. Failure to respond in a timely and effective manner could result in current products or services becoming unmarketable or could cause prices to fall. This may result in reduced net income due to inventory write-offs and decreased revenues. The Company is responding to the fast-pace of technological change by embracing new service development with strategic partners, accelerating new service introduction and developing an integrated growth plan to remain a next generation services provider.

### **Increasing competition**

Atlantic Canada is one of the most competitive regions for telecommunications services in North America. Competition in the area of local service comes from national telecommunications competitors and regional cable companies with the entry of other competitors considered a possibility. Cable companies and independent Internet service providers have increased Internet competition to such a degree that pricing levels in Atlantic Canada are amongst the lowest in North America. The wireless industry is also highly competitive. Aliant competes locally with a number of national wireless carriers. Competition is expected to intensify through the development of new technologies, products and services and through consolidations in the industry. The threat of new competitors or an increased presence of existing competitors is always a possibility. Competition can result in lower revenues if marketing strategies fail to mitigate this risk. Aliant has a competitive action plan, which involves constantly monitoring and reacting to the competitive situation. Aliant also mitigates the risk of competition through continuous efforts to provide superior quality of service and product offerings that are responsive to market demands, reliable and simple to access and use.

### **Changing regulations**

The federal government and the CRTC continue to focus on ensuring that there is a competitive Canadian environment for certain telecommunications services through continued regulation of incumbent local exchange carriers such as Aliant Telecommunications. In the past years, Aliant's profitability has been negatively impacted by regulatory changes concerning price caps, the contribution regime and bundling.

Further, there is a federal government initiative underway in the United States regarding the establishment of a "Do not call" registry, which would prohibit telemarketers from making outbound calls for the purposes of solicitation to individuals on the registry. The CRTC has been looking at a similar initiative and already has a restriction on respecting individual customers "do not call request" incorporated into the General Tariff. Regulation on this issue in the United States and Canada may impact Aliant Telecommunications' call centre volumes and revenues. However, it is probable that most telemarketing companies already have some guidelines in place. Aliant will continue to track developments and customer views in regards to this legislation.

The restrictions on pricing and packaging of Aliant Telecommunications' products and services make it increasingly difficult to respond to rapidly evolving customer demands and competition from competitive local exchange carriers. The federal government is also giving consideration to eliminating the foreign ownership restrictions for Telecommunications carriers, which may result in increased competition from foreign companies with greater access to capital. Changing CRTC regulation may impact Aliant's ability to compete and as a result negatively impact net operating revenues. Aliant will continue its dialogue with the CRTC in an attempt to increase bi-lateral understanding of key business and regulatory initiatives.

### **Improving productivity and cost reductions**

The Company has and will continue to implement productivity and cost reduction initiatives. Many of these initiatives result from Aliant's continued focus on alignments with strategic partners, business process improvements and restructuring activities. In the upcoming quarters Aliant will be continuing initiatives to improve the profitability of the Information Technology segment. There could be a negative impact on the Company's profitability if productivity and cost reduction initiatives are unsuccessful.

### **Renegotiating labour agreements**

Aliant's employees play an integral role in the Company's ability to provide a competitive advantage based on quality of service. The Council of Atlantic Telecommunications Unions (CATU) represents approximately 4,200 of Aliant's unionized employees. These employees have been without a collective agreement since December 31, 2001. The Company has been involved in negotiations with CATU since March 4, 2002. Based on Aliant's application for conciliation in early September 2003, Human Resources Development Canada (HRDC) has appointed two conciliation officers to assist with the bargaining process at the request of Aliant and this conciliation process began on October 7, 2003. Aliant is hopeful that the expertise of HRDC conciliation officers will help achieve a settlement by year-end. Settlement will enable both union employees and management to focus on serving Aliant customers and meeting business objectives in the coming year. The process of renegotiating collective agreements could result in higher labour costs or work disruptions thus affecting the operating results and financial condition of Aliant.

### **Other legal and regulatory matters**

Pending or future litigation, regulatory initiatives or proceedings, or new or changing laws or regulations or changes in their interpretation could have a material and negative effect on Aliant. Aliant accrues potential losses as previously noted under "Legal and regulatory contingencies" in the "Significant accounting policies" section. If the resolution of a legal or regulatory matter results in a judgment against Aliant that has not been accrued, it could have a significant and adverse effect on its results of operations, cash flows and financial position in the period in which the judgment or settlement occurs.

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document and in particular the statements contained in the "Risk and risk management" and "Significant accounting policies" sections, constitute forward-looking statements. These forward-looking statements relate to future financial condition and results of operations of Aliant. These statements are based on current expectations and estimates about the markets in which Aliant operates and management's beliefs and assumptions regarding these markets. In some cases forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will", "target", "goal" and similar expressions. These statements are subject to important risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. Some of the factors that could cause results or events to differ materially from current expectations include but are not limited to those factors identified in the "Risk and risk management" section, many of which are beyond the control of Aliant. Should any of these factors impact the Company in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the results or events predicted in management's discussion and analysis may differ materially from actual results or events. Consequently, all of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by Aliant will be realized or, even if substantially realized, that they will have the expected consequences for Aliant. Readers should also consult the Annual Information Form for the year ended December 31, 2002 for Aliant Inc., Aliant Telecom Inc., and Stratos Global Corporation. Readers should not place undue reliance on any forward-looking statements. Further, Aliant disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or any other occurrence.

# Statements (unaudited)


## CONSOLIDATED BALANCE SHEETS

<i>(thousands of dollars)</i>	As at September 30, 2003	As at December 31, 2002 <i>(note 3)</i>
<b>Assets</b>		
Current assets		
Cash and short-term investments	\$ 226,302	\$ 261,175
Accounts receivable (note 4)	431,891	410,485
Inventory	25,642	27,770
Prepayments	57,898	41,228
Income tax receivable	13,338	55,536
Current assets held for sale (note 3)	2,709	24,148
	<b>757,780</b>	820,342
Capital investments (note 5)	<b>2,205,082</b>	2,313,793
Other assets		
Long-term investments (note 6)	32,909	37,640
Deferred charges	107,872	118,868
Future income tax asset	52,091	18,885
Goodwill (note 7)	320,200	365,740
Non-current assets held for sale (note 3)	850	20,448
	<b>513,922</b>	561,581
<b>Total assets</b>	<b>\$ 3,476,784</b>	\$ 3,695,716
<b>Liabilities and shareholders' equity</b>		
Current liabilities		
Notes payable and bank advances (note 8)	\$ 57,581	\$ 95,591
Payables and accruals (note 9)	300,833	223,446
Income tax payable	46,236	10,939
Future income tax liability	13,677	12,658
Long-term debt due within one year (note 10)	42,331	140,278
Current liabilities held for sale (note 3)	2,037	19,143
	<b>462,695</b>	502,055
Long-term debt (note 10)	1,181,942	1,262,491
Accrued benefit obligation	81,367	73,873
Deferred credits	11,764	12,834
Non-current liabilities held for sale (note 3)	2,730	9,002
	<b>1,740,498</b>	1,860,255
Non-controlling interest (note 11)	<b>156,660</b>	164,886
Shareholders' equity		
Capital stock (note 12)	1,222,758	1,242,815
Contributed surplus	—	64,155
Retained earnings	374,493	354,080
Cumulative translation adjustment	(17,625)	9,525
	<b>1,579,626</b>	1,670,575
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,476,784</b>	\$ 3,695,716

See accompanying notes to the consolidated financial statements  
Signed on behalf of the Board of Directors



Charles White  
Chairman



Edward Reevey  
Director

## CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF INCOME

For the period ended September 30 (thousands of dollars except per share amounts)	Three months		Nine months	
	2003	2002 (note 3)	2003	2002 (note 3)
Operating revenues (note 13)	\$ 646,496	\$ 637,591	\$ 1,955,089	\$ 1,916,756
Expenses				
Cost of operating revenues	161,694	168,621	508,386	516,137
Operating expenses	240,112	243,857	733,923	700,855
Depreciation and amortization	108,299	109,364	326,268	320,557
Restructuring charge (note 9)	15,500	—	15,500	—
	525,605	521,842	1,584,077	1,537,549
Operating income	120,891	115,749	371,012	379,207
Other income (expenses)				
Gain on foreign exchange (note 2)	—	—	—	23,944
Other income (expenses)	2,074	(720)	1,582	28,148
	2,074	(720)	1,582	52,092
Interest charges				
Interest on long-term debt	25,179	29,216	78,090	94,772
Other interest expense	252	1,184	769	1,405
	25,431	30,400	78,859	96,177
Income before underlisted items	97,534	84,629	293,735	335,122
Income taxes	36,447	34,770	111,131	110,769
Income before non-controlling interest	61,087	49,859	182,604	224,353
Non-controlling interest	4,928	2,383	15,274	20,659
<b>Net income from continuing operations</b>	<b>\$ 56,159</b>	<b>\$ 47,476</b>	<b>\$ 167,330</b>	<b>\$ 203,694</b>
<b>Net loss from discontinued operations (note 3)</b>	<b>\$ (5,227)</b>	<b>\$ (3,336)</b>	<b>\$ (6,944)</b>	<b>\$ (21,599)</b>
<b>Net income</b>	<b>\$ 50,932</b>	<b>\$ 44,140</b>	<b>\$ 160,386</b>	<b>\$ 182,095</b>
<b>Earnings per common share (note 14)</b>				
Basic from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Basic from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Basic	\$ 0.36	\$ 0.30	\$ 1.11	\$ 1.26
Diluted from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Diluted from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Diluted	\$ 0.36	\$ 0.30	\$ 1.11	\$ 1.26

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30 (thousands of dollars)	2003	2002
Retained earnings, beginning of period	\$ 354,080	\$ 317,988
Net income	160,386	182,095
Preferred share dividends	(7,153)	(7,153)
Common share dividends	(110,634)	(96,196)
Excess of repurchase of common shares over stated value	(22,186)	—
<b>Retained earnings, end of period</b>	<b>\$ 374,493</b>	<b>\$ 396,734</b>

See accompanying notes to the consolidated financial statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended September 30 (thousands of dollars)	Three months		Nine months	
	2003	2002 <i>(note 3)</i>	2003	2002 <i>(note 3)</i>
Cash and cash equivalents from (used in) operations				
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Add (deduct) non-cash items:				
Depreciation and amortization	108,299	109,364	326,268	320,557
Gain on foreign exchange	—	—	—	(23,944)
(Gain) loss on disposal of assets	(653)	475	(226)	(29,453)
Future income taxes	(12,804)	(18,739)	(39,496)	(20,616)
Deferred pension costs	14,012	2,908	37,331	8,723
Non-controlling interest share of income	4,928	2,383	15,274	20,659
Other non-cash items	386	(11)	89	(114)
	170,327	143,856	506,570	479,506
Change in non-cash working capital balances related to operations	47,282	23,934	128,005	(19,409)
	217,609	167,790	634,575	460,097
Cash and cash equivalents from (used in) financing				
Repurchase of accounts receivable	—	—	(5,000)	(15,000)
Net proceeds (repayments) of notes payable and bank advances	21,914	(2,904)	(38,010)	(12,295)
Proceeds from long-term debt	—	1,000	—	101,000
Repayments of long-term debt	(22,967)	(17,054)	(131,750)	(208,469)
Increase in non-controlling interest	206	73	344	108,235
Proceeds from issue (repurchase) of common shares	(78,556)	(4,626)	(113,205)	13,873
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Common share dividends	(35,550)	(32,641)	(103,827)	(56,882)
	(117,337)	(58,536)	(398,601)	(76,691)
Cash and cash equivalents from (used in) investing				
Capital investments	(96,928)	(97,855)	(251,497)	(318,313)
Proceeds on sale of investments	857	1,224	3,338	9,900
Decrease (increase) in investments	14	66	—	(985)
Increase in deferred credits	(1,334)	(237)	(27,767)	(1,603)
	(97,391)	(96,802)	(275,926)	(311,001)
Cash and short-term investments from (used in) continuing operations	2,881	12,452	(39,952)	72,405
Cash and short-term investments from (used in) discontinued operations (note 3)	(7,778)	(1,232)	11,265	3,064
Cash and short-term investments, beginning of period	232,459	194,553	261,175	130,304
Effect of exchange rate changes on cash	(1,260)	1,256	(6,186)	1,256
<b>Cash and short-term investments, end of period</b>	<b>\$ 226,302</b>	<b>\$ 207,029</b>	<b>\$ 226,302</b>	<b>\$ 207,029</b>
Supplementary disclosure				
Interest paid	\$ 18,858	\$ 22,570	\$ 74,316	\$ 86,604
Income taxes paid	\$ 20,726	\$ 29,872	\$ 82,349	\$ 118,928

See accompanying notes to the consolidated financial statements

# Statement notes

## 1 INTERIM FINANCIAL STATEMENTS

The accounting policies and methods followed for interim reporting purposes are consistent with those in effect for the most recent annual financial statements for the year ended December 31, 2002, except as explained in note 2 under stock-based compensation plan. These interim consolidated financial statements do not include all of the disclosures required in annual financial statements. Accordingly, these unaudited interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2002.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Consolidated financial statements

The consolidated financial statements include the accounts of Aliant Inc. ("the Company") and all entities that are controlled by the Company and its proportionate share of jointly controlled entities.

At September 30, 2003, the principal subsidiaries of the Company include: Aliant Telecom Inc., Innovatia Inc., Aliant ActiMedia, Aliant Information Technology Inc., Xwave Solutions Inc., and Stratos Global Corporation.

The following subsidiaries have been classified as discontinued operations: AMI Offshore Inc., Prexar LLC, Aliant Energy Services Inc., and 3618412 Canada Inc. ("SableCom"), as discussed in note 3.

### Use of accounting estimates

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

### Cash and short-term investments

Cash and short-term investments consist of cash on hand and balances with banks, and investments in money market instruments with original maturity of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in fair value.

### Transfer of receivables

The Company entered into a Purchase and Sale Agreement under which it sells its interest in a pool of present and future eligible accounts receivable to a securitization trust that issues securities to investors. These transactions are accounted for as sales when the Company is considered to have surrendered control over the transferred accounts receivable and receives proceeds from the trust, other than a beneficial interest in the assets sold. Losses or gains on these transactions are recognized as other expenses or income and are dependent in part on the previous carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable and credit loss ratios.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### **Inventory**

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

### **Income taxes**

The Company follows the liability method of accounting for income taxes. 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 substantively enacted income tax rates on future income tax assets and liabilities is included in income in the period that the change occurs.

### **Capital investments**

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

<i>Asset</i>	<i>Method</i>	<i>Rate</i>
Buildings and towers	Straight line	10 – 40 years
Telecommunications facilities and equipment	Straight line	4 – 40 years
Application software and other equipment	Straight line	3 – 15 years

Depreciation is not recorded on capital under construction that is not yet operational.

Gains and losses on the disposal of identifiable capital investments are included in income in the period they occur.

### **Long-term investments**

The Company accounts for its investments in affiliated companies over which it has significant influence using the equity method 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.

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

### **Deferred charges**

Deferred charges include debt issue costs, which are amortized on a straight-line basis over the term of the related debt, cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts, as well as Internet commissions, which are amortized over a defined customer relationship period. Also included in deferred charges is the Company's retained interest in accounts receivable transferred to a securitization trust.

### **Goodwill**

Goodwill represents the excess, at the dates of acquisition, of the costs over the fair values of the net amounts assigned to identifiable assets acquired and liabilities assumed. The Company annually reviews the goodwill of all its reporting units to ensure that its fair value remains greater than, or equal to, carrying value. Any impairment in the value of goodwill is charged to income in the period such impairment is determined.

### **Derivative financial instruments**

Derivative financial instruments are used by the Company in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company's policy is to formally designate each derivative financial instrument as a hedge of specific assets and liabilities on the balance sheet or to specific firm commitments. The Company believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity and the (notional) principal amount match the terms of the instrument or transaction being hedged.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign exchange forward contracts may be used periodically by the Company to manage its exposure to fluctuations in currency exchange rates. Foreign exchange forward contracts are accounted for as hedges to the extent that they are designated as, and are effective as, hedges of firm foreign currency commitments. Gains and losses on foreign exchange forward contracts are recognized in income in the same period as gains and losses on the underlying hedged transactions are recognized.

The Company has entered into interest rate swap and swaption agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. Amounts payable or receivable under interest rate swap agreements are recognized as adjustments to interest expense. In addition, premiums received or paid, if any, under interest rate swaption agreements are amortized as an adjustment to interest expense over the period from receipt, or payment, of the premium to maturity of the underlying debt obligation.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred and reported under deferred charges on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

### Post employment benefits

The Company and its subsidiaries provide certain pension plans and other non-pension post employment benefits to qualified employees. These include contributory defined contribution pension plans, non-contributory defined benefit final average pension plans and other retirement benefits such as life insurance and health care plans.

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 post employment benefits:

- (a) The cost of pensions and other post employment benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of 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 market-related value where investment returns (gains or losses) in excess of expected returns are recognized in the asset value over a period of 3 years.
- (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 per cent of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees being 13 years at September 30, 2003 (December 31, 2002 – 16 years).
- (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.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of December 31, 2002):

	Pension Benefit Plans		Other Benefit Plans	
	2003	2002	2003	2002
Discount rate	<b>6.75%</b>	6.75%	<b>6.75%</b>	6.75%
Expected long-term rate of return on plan assets	<b>7.50%</b>	7.50%	—	—
Rate of compensation increase	<b>3.00%</b>	3.00%	<b>3.00%</b>	3.00%

For measurement purposes, it was assumed that the per capita cost of covered health care benefits would increase by 8.0 per cent for 5 years, and by 4.5 per cent per year thereafter.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Discount rates are based on the range of current interest rates on long-term debt of high-quality ('A' rating or higher) corporate issuers. Expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given the Company's policy asset mix. Over the past 10 years, the weighted average rate of return for the Company's defined benefit pension plans was 8.9 per cent per annum.

A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other non-pension post employment benefits. The latest valuation is dated September 23, 2003 and was performed as of December 31, 2002.

Defined contribution plan costs are recognized as employees render services during the year.

### **Earnings per common share**

Earnings per common share is based on the average number of common shares outstanding for the period. Diluted earnings per share is computed in accordance with the treasury stock method and based on the average number of common shares and dilutive common share equivalents.

### **Stock-based compensation plan**

The Company has a stock-based compensation plan for executives and certain senior managers, which is described in note 15. A subsidiary of the Company also has a stock-based compensation plan specific to its own shares. For stock-based compensation awards granted by the Company after January 1, 2003, the Company has changed its accounting policy to record compensation expense upon issuance of stock options to employees calculated using the fair value method. Compensation expense recognition commences when stock options are issued, with full recognition over the vesting period, being three years for the Company and varying vesting terms for the subsidiary of the Company. The expense to be amortized over the vesting period is determined using Black-Scholes model. This accounting change resulted in an increase in expense of \$0.6 million and \$1.0 million respectively for the three and nine months ended September 30, 2003.

As permitted under the CICA accounting standard for Stock-Based Compensation and Other Stock-Based Payments, the Company does not record compensation expense upon issuance of stock options to employees under its own stock option plan for awards granted prior to January 1, 2003. However, as required by the standard, the Company is disclosing the pro-forma net income and pro-forma earnings per share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in note 14.

Compensation expense is also recognized for the Company's contributions to the employees' stock savings plan.

Another subsidiary of the Company had a stock-based compensation plan specific to its own shares. Participants in this plan cash settled the options during the third quarter of 2003. The difference between the liability recorded and the cash settlement was recorded as compensation expense.

### **Foreign currency translation**

Effective July 1, 2002, the economic facts and circumstances surrounding the Company's foreign operations changed such that operations that were previously classified as integrated are now reported as self-sustaining. This change was the result of a significant reduction in the Company's financial guarantee provided to the foreign operation's lender along with strong evidence in the first two quarters of 2002 of the foreign operations ability to meet its debt servicing obligation with the lender thus limiting the Company's exposure related to the remaining guarantee. As a result, the translation method used was changed from the temporal to the current rate method.

Assets and liabilities of the Company's self-sustaining foreign operations are translated using the current rate method at exchange rates prevailing at the balance sheet date, which was US\$1.00 = Canadian\$1.35 at September 30, 2003 (US\$1.00 = Canadian\$1.58 at December 31, 2002). Resulting unrealized gains or losses, due to fluctuations in exchange rates during the period, are deferred and included in shareholders' equity as a cumulative translation adjustment. Revenues and expenses are translated at the average exchange rate prevailing during the period.

### 3 DISCONTINUED OPERATIONS

Effective January 1, 2003, Innovatia Inc., which was previously reported under the Emerging business segment, has been transferred to the Telecommunications segment. The remaining assets of the Emerging business segment and other investments, were disposed of as follows:

- April 2003 – the 29.3 per cent interest in iMagicTV Inc. was sold,
- May 2003 – the assets of Prexar LLC were sold,
- August 2003 – the 50 per cent investment in SableCom was sold,
- August 2003 – subsidiaries of AMI Offshore Inc. (“AMI”) were sold. AMI now has virtually no operations and the company is in the process of being divested at September 30, 2003, and
- September 2003 – Aliant Energy Services Inc. was wound up.

For reporting purposes, the results of operations of, AMI Offshore Inc., Prexar LLC, iMagicTV Inc., Aliant Energy Services Inc., and SableCom have been presented as discontinued operations. Accordingly, prior period financial statements, including segmented information as disclosed in note 13, have been reclassified to reflect this change.

The summarized statements of income for the discontinued operations are as follows:

<i>(thousands of dollars)</i>	Three months		Nine months	
	2003	2002	2003	2002
Operating revenues	\$ 6,546	\$ 16,477	\$ 29,124	\$ 53,068
Operating expenses	7,229	19,752	37,304	59,081
Other expenses	3,206	1,356	10,037	19,779
Gain (loss) on disposal	(3,417)	—	10,166	—
Interest on long-term debt	71	125	351	435
Income tax (recovery)	(1,019)	(1,187)	319	(5,239)
Non-controlling interest	(1,131)	(233)	(1,777)	611
Net loss from discontinued operations	\$ (5,227)	\$ (3,336)	\$ (6,944)	\$ (21,599)

### 4 TRANSFER OF RECEIVABLES

Under an agreement dated December 13, 2001, the Company sells certain accounts receivable to a securitization trust. The excess of amounts transferred over the cash proceeds represents the Company's retained interest and the amount of overcollateralization in the receivables transferred and is included in deferred charges. The Company remains exposed to certain risks of default on the amount of receivables under securitization. It has provided various credit enhancements in the form of overcollateralization and subordination of its retained interests. The purchaser and its investors have no recourse to the Company's other assets for failure of the obligator to pay the amounts when due.

Under the agreement receivables are sold on a fully serviced basis, so that the Company continues to administer the collection of such receivables. The Purchaser will re-invest the funds from collections in the purchase of additional interests in the Company's accounts receivable until the expiration of the agreement on December 13, 2006.

As at September 30, 2003, the Company had sold \$130.0 million (December 31, 2002 – \$135.0 million) of accounts receivable and transferred \$158.7 million (December 31, 2002 – \$164.9 million) of receivables to the trust. Included in deferred charges is the Company's retained interest of \$28.7 million (December 31, 2002 – \$29.9 million).

During the nine months ended September 30, 2003, the Company recognized a pre-tax loss of approximately \$3.4 million (December 31, 2002 – \$3.7 million) on the transfer of receivables.

## 5 CAPITAL INVESTMENTS

(thousands of dollars)

	September 30, 2003		
	Cost	Accumulated depreciation	Net book value
Land	\$ 15,058	\$ —	\$ 15,058
Buildings and towers	343,350	171,824	171,526
Telecommunications facilities and equipment	4,316,899	2,761,385	1,555,514
Application software and other equipment	900,532	507,279	393,253
Capital under construction	60,414	—	60,414
Materials and supplies	9,317	—	9,317
	<b>\$ 5,645,570</b>	<b>\$ 3,440,488</b>	<b>\$ 2,205,082</b>

(thousands of dollars)

	December 31, 2002		
	Cost	Accumulated depreciation	Net book value
Land	\$ 15,568	\$ —	\$ 15,568
Buildings and towers	339,975	165,285	174,690
Telecommunications facilities and equipment	4,242,723	2,616,912	1,625,811
Application software and other equipment	928,655	462,875	465,780
Capital under construction	22,690	—	22,690
Materials and supplies	9,254	—	9,254
	<b>\$ 5,558,865</b>	<b>\$ 3,245,072</b>	<b>\$ 2,313,793</b>

## 6 LONG-TERM INVESTMENTS

(thousands of dollars)

	September 30, 2003	December 31, 2002
Investments subject to significant influence	\$ (153)	\$ —
Portfolio investments	33,062	37,640
	<b>\$ 32,909</b>	<b>\$ 37,640</b>

## 7 GOODWILL

(thousands of dollars)

	September 30, 2003	December 31, 2002
Goodwill, at cost	\$ 407,064	\$ 456,154
Cumulative impairment provision	(50,000)	(50,000)
Accumulated amortization as of December 31, 2002	(36,864)	(40,414)
	<b>\$ 320,200</b>	<b>\$ 365,740</b>

Changes in the cost of goodwill and accumulated amortization are a result of foreign exchange fluctuations.

## 8 NOTES PAYABLE AND BANK ADVANCES

At September 30, 2003 the Company has \$nil (December 31, 2002 – \$nil) outstanding under its commercial paper program. The Company has lines of credit available of \$500.0 million (December 31, 2002 – \$535.0 million). These lines consist of \$350.0 million (December 31, 2002 – \$300.0 million) in committed lines supporting the Company's commercial paper program, \$nil (December 31, 2002 – \$125.0 million) in committed lines supporting a Stratos loan guarantee, and \$150.0 million (December 31, 2002 – \$110.0 million) in uncommitted lines. Certain of the Company's subsidiaries also have lines of credit available totalling \$57.0 million (December 31, 2002 – \$125.0 million) for operating purposes.

## 9 RESTRUCTURING CHARGE

During 2001, the Company commenced a significant organizational restructuring which resulted in a charge of \$111.2 million against earnings. The action taken in 2001 to effect the restructuring was an acceleration of long-term plans for continued efforts to realize cost savings and efficiencies resulting from the consolidation and integration of its operations.

Costs associated with workforce reduction and operational integration continue to be charged against the restructuring provision recorded at December 31, 2001. These costs include severance, pension costs and benefits as well as costs to consolidate systems and services, downsize business units, terminate contracts and streamline management and administration functions. As at September 30, 2003, the balance of this restructuring provision included in payables and accruals totaled \$2.0 million (December 31, 2002 – \$10.0 million).

During the third quarter of 2003, the Company executed a comprehensive restructuring plan of xwave's operations, which resulted in a charge of \$15.5 million against earnings. The objective of the plan is to restore profitability, improve productivity, realign xwave's strategy, and simplify its business model.

Costs associated with the restructuring plan, which include severance and related benefits, equipment lease cancellation penalties and real estate rationalization costs, are being charged against this provision. As at September 30, 2003, the balance of this restructuring provision included in payables and accruals totalled \$10.0 million. The remaining provision will be drawn down during the last quarter of 2003.

## 10 LONG-TERM DEBT

<i>(thousands of dollars)</i>	Interest rate	Maturity	September 30, 2003	December 31, 2002
<b>Telecommunications</b>				
Notes	5.35%–6.80%	2004–2011	\$ 600,000	\$ 600,000
Bonds	8.76%–11.40%	2009–2019	185,000	192,500
Debentures	8.30%–11.13%	2013–2025	200,000	265,000
Other			—	2,000
			<b>985,000</b>	1,059,500
Present value of obligations under capital leases			<b>4,990</b>	3,526
<b>Total – Telecommunications</b>			<b>989,990</b>	1,063,026
<b>Information technology</b>				
Mortgages			—	917
Other		2005	276	—
Present value of obligations under capital leases			125	429
<b>Total – Information technology</b>			<b>401</b>	1,346

# 10 LONG-TERM DEBT continued

(thousands of dollars)

	Interest rate	Maturity	September 30, 2003	December 31, 2002
<b>Remote communications</b>				
Term debt	LIBOR + 2.00%	2005	<b>221,924</b>	291,856
Acquisition facility	LIBOR + 2.00%	2004	<b>9,989</b>	44,173
Other	7.59%	Various	<b>1,592</b>	2,368
Present value of obligations under capital leases			<b>377</b>	—
Total — Remote communications			<b>233,882</b>	338,397
Total long-term debt			<b>1,224,273</b>	1,402,769
Less: Portion due within one year			<b>42,331</b>	140,278
			<b>\$ 1,181,942</b>	\$ 1,262,491

## Telecommunications:

On June 16, 2003, a \$65 million 6.40 per cent Debenture NBTel Series AI matured.

On July 28, 2003, a \$7.5 million 11.45 per cent first mortgage bond was repaid.

## Remote communications:

Scheduled and additional payments of \$57.3 million (US\$41.3 million) were made since December 31, 2002, split equally between the term debt and acquisition facility. The long-term debt balance at September 30, 2003 also includes foreign exchange fluctuations of \$46.7 million since December 31, 2002

# 11 NON-CONTROLLING INTEREST

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

(thousands of dollars)

	September 30, 2003	December 31, 2002
Stratos Global Corporation	<b>\$ 152,849</b>	\$ 161,612
TechKnowledge Inc.	<b>705</b>	839
Atlantic Mobility Products Ltd.	<b>3,106</b>	2,435
	<b>\$ 156,660</b>	\$ 164,886

# 12 CAPITAL STOCK

## Authorized

Unlimited number of preference shares, cumulative redeemable at the price of \$25.00 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 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 shares on June 30, 2006 or on June 30 each fifth year thereafter, provided that the Company has not delivered a notice of redemption.

Unlimited number of common shares, without par value.

# 12 CAPITAL STOCK continued

## Issued

(thousands of dollars)

	September 30, 2003		December 31, 2002	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares	136,058,679	1,050,494	139,513,639	1,070,551
		<b>\$ 1,222,758</b>		<b>\$ 1,242,815</b>

The following table summarizes the changes in issued common shares of the Company:

	September 30, 2003		December 31, 2002	
	Number of shares	Value	Number of shares	Value
Stock option plan (note 15)	271,781	\$ 5,096	437,018	\$ 7,369
Common shareholder dividend reinvestment and stock purchase plan	151,112	4,445	1,373,235	38,335
Employees' stock savings plan (note 15)	—	—	441,539	12,452
Shares purchased for cancellation	(3,877,853)	(29,598)	(264,300)	(2,021)
	<b>(3,454,960)</b>	<b>\$ (20,057)</b>	1,987,492	\$ 56,135

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.

During the period, the Company issued shares in relation to the common shareholder dividend reinvestment and stock purchase plan as well as the employees' stock savings plan in lieu of paying cash dividends in the amount of \$6.8 million (December 31, 2002 – \$41.5 million).

On July 18, 2002, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 1,600,000 of its outstanding common shares on the Toronto Stock Exchange, representing approximately 1.1 per cent of the issued and outstanding common shares of Aliant Inc. as of that date, being 139,567,382 common shares. Under the bid, the Company would acquire, from time to time, its common shares at the market price from cash through the facilities of the Toronto Stock Exchange. Purchases of common shares could be made during the 12-month period commencing July 22, 2002 and ending on July 21, 2003. Aliant Inc. purchased and cancelled all of the 1,600,000 shares as of June 2003, of which 1,335,700 shares were in 2003.

On July 30, 2003, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 6,925,000 of its outstanding common shares on the Toronto Stock Exchange, representing approximately 5.0 per cent of the issued and outstanding common shares of Aliant Inc. as of that date, being 138,517,283 common shares. Under the bid, the Company would acquire, from time to time, its common shares at the market price from cash through the facilities of the Toronto Stock Exchange. Bell Canada, Aliant's majority shareholder, will sell shares into the normal course issuer bid on a pro-rata basis and the Toronto Stock Exchange has granted an exemption to permit Aliant to make purchases from Bell Canada on that basis. Purchases of common shares may be made during the 12-month period commencing August 6, 2003 and ending on August 5, 2004. As of September 30, 2003, 2,542,153 shares were purchased for cancellation.

For the nine months ended, September 30, 2003, the Company purchased for cancellation 3,877,853 shares (December 31, 2002 – 264,300) for an aggregate price of \$115.9 million (December 31, 2002 – \$7.2 million) which reduced capital stock by \$29.6 million (December 31, 2002 – \$2.0 million), contributed surplus by \$64.1 million (December 31, 2002 – \$5.2 million) and retained earnings by \$22.2 million (December 31, 2002 – \$nil million).

# 13 SEGMENTED INFORMATION

The Company operates through three reportable segments:

*Telecommunications* – provides a full range of telecommunications services in New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland and Labrador. Included in this line of business are Aliant Telecom Inc., Innovatia Inc., and Aliant ActiMedia.

*Information technology* – provides systems integration, application development, local area network installation, wide area network management, data centre 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.

Effective January 1, 2003, Innovatia Inc. was transferred to the telecommunications segment with the remaining businesses previously reported under the Emerging business segment reported as discontinued operations.

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.

For the three month period ended September 30 (thousands of dollars)

	<b>2003</b>					
	Telecommunications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 456,442	\$ 53,259	\$ 136,620	\$ 175	\$ —	\$ 646,496
Intersegment revenue	4,017	28,954	—	—	(32,971)	—
Operating revenues	460,459	82,213	136,620	175	(32,971)	646,496
Operating expenses	243,689	78,225	107,755	5,353	(33,216)	401,806
Depreciation and amortization	95,675	3,000	9,986	417	(779)	108,299
Restructuring charge	—	15,500	—	—	—	15,500
Gain on foreign exchange	—	—	—	—	—	—
Other income (expenses)	1,522	1,166	—	1,819	(2,433)	2,074
Interest charges	20,385	473	5,175	1,831	(2,433)	25,431
Income taxes (recovery)	41,256	(5,562)	3,826	(3,271)	198	36,447
Non-controlling interest	206	21	4,619	82	—	4,928
Net income (loss)						
from continuing operations	\$ 60,770	\$ (8,278)	\$ 5,259	\$ (2,418)	\$ 826	\$ 56,159
Net loss from discontinued operations	\$ (2,097)	\$ —	\$ —	\$ (3,130)	\$ —	\$ (5,227)
Net income (loss)	\$ 58,673	\$ (8,278)	\$ 5,259	\$ (5,548)	\$ 826	\$ 50,932
Total assets	\$ 2,748,801	\$ 164,750	\$ 686,644	\$ 1,842,924	\$ (1,966,335)	\$ 3,476,784
Capital investments	\$ 90,898	\$ 187	\$ 5,576	\$ 267	\$ —	\$ 96,928

# 13 SEGMENTED INFORMATION continued

For the three month period ended September 30 (thousands of dollars)

2002 (note 3)

	Telecommunications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 461,304	\$ 48,094	\$ 128,215	\$ (22)	\$ —	\$ 637,591
Intersegment revenue	4,198	35,086	—	(45)	(39,239)	—
Operating revenues	465,502	83,180	128,215	(67)	(39,239)	637,591
Operating expenses	248,724	94,639	101,476	5,168	(37,529)	412,478
Depreciation and amortization	94,000	3,242	11,971	151	—	109,364
Restructuring charge	—	—	—	—	—	—
Gain on foreign exchange	—	—	—	—	—	—
Other income (expenses)	(1,605)	376	—	1,742	(1,233)	(720)
Interest charges	22,545	480	7,743	866	(1,234)	30,400
Income taxes (recovery)	40,255	(5,828)	2,728	(1,681)	(704)	34,770
Non-controlling interest	399	16	2,009	(41)	—	2,383
Net income (loss)						
from continuing operations	\$ 57,974	\$ (8,993)	\$ 2,288	\$ (2,788)	\$ (1,005)	\$ 47,476
Net loss from discontinued operations	\$ (169)	\$ —	\$ —	\$ (3,167)	\$ —	\$ (3,336)
Net income (loss)	\$ 57,805	\$ (8,993)	\$ 2,288	\$ (5,955)	\$ (1,005)	\$ 44,140
Total assets	\$ 2,706,034	\$ 223,951	\$ 815,177	\$ 1,917,663	\$ (1,784,045)	\$ 3,878,780
Capital investments	\$ 89,350	\$ 486	\$ 7,563	\$ 456	\$ —	\$ 97,855

For the nine month period ended September 30 (thousands of dollars)

2003

	Telecommunications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,340,386	\$ 181,713	\$ 432,082	\$ 908	\$ —	\$ 1,955,089
Intersegment revenue	14,007	95,277	—	—	(109,284)	—
Operating revenues	1,354,393	276,990	432,082	908	(109,284)	1,955,089
Operating expenses	726,485	272,691	337,964	16,590	(111,421)	1,242,309
Depreciation and amortization	287,890	8,791	31,383	831	(2,627)	326,268
Restructuring charge	—	15,500	—	—	—	15,500
Gain on foreign exchange	—	—	—	—	—	—
Other income (expenses)	1,704	1,127	—	7,189	(8,438)	1,582
Interest charges	61,975	1,737	17,248	6,337	(8,438)	78,859
Income taxes (recovery)	110,845	(7,991)	13,224	(5,606)	659	111,131
Non-controlling interest	207	(19)	15,086	—	—	15,274
Net income (loss)						
from continuing operations	\$ 168,695	\$ (12,592)	\$ 17,177	\$ (10,055)	\$ 4,105	\$ 167,330
Net loss from discontinued operations	\$ (2,434)	\$ —	\$ —	\$ (4,510)	\$ —	\$ (6,944)
Net income (loss)	\$ 166,261	\$ (12,592)	\$ 17,177	\$ (14,565)	\$ 4,105	\$ 160,386
Total assets	\$ 2,748,801	\$ 164,750	\$ 686,644	\$ 1,842,924	\$ (1,966,335)	\$ 3,476,784
Capital investments	\$ 232,068	\$ 1,327	\$ 16,676	\$ 1,426	\$ —	\$ 251,497

# 13 SEGMENTED INFORMATION continued

For the nine month period ended September 30 (thousands of dollars)

2002 (note 3)

	Telecommunications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,331,910	\$ 198,468	\$ 383,504	\$ 2,874	\$ —	\$ 1,916,756
Intersegment revenue	12,788	109,893	—	(370)	(122,311)	—
Operating revenues	1,344,698	308,361	383,504	2,504	(122,311)	1,916,756
Operating expenses	712,663	302,405	302,208	16,540	(116,824)	1,216,992
Depreciation and amortization	278,990	9,042	31,904	621	—	320,557
Restructuring charge	—	—	—	—	—	—
Gain on foreign exchange	—	—	23,944	—	—	23,944
Other income (expenses)	(2,766)	448	—	37,246	(6,780)	28,148
Interest charges	66,536	1,237	31,347	3,838	(6,781)	96,177
Income taxes (recovery)	113,034	(825)	(734)	1,306	(2,012)	110,769
Non-controlling interest	816	(11)	19,977	(123)	—	20,659
Net income (loss)						
from continuing operations	\$ 169,893	\$ (3,039)	\$ 22,746	\$ 17,568	\$ (3,474)	\$ 203,694
Net loss from discontinued operations	\$ (507)	\$ —	\$ —	\$ (21,092)	\$ —	\$ (21,599)
Net income (loss)	\$ 169,386	\$ (3,039)	\$ 22,746	\$ (3,524)	\$ (3,474)	\$ 182,095
Total assets	\$ 2,706,034	\$ 223,951	\$ 815,177	\$ 1,917,663	\$ (1,784,045)	\$ 3,878,780
Capital investments	\$ 282,972	\$ 4,799	\$ 29,760	\$ 782	\$ —	\$ 318,313

## Revenue from external customers by product and service:

	Three months		Nine months	
	2003	2002	2003	2002
<i>For the period ended September 30 (thousands of dollars)</i>				
Telecommunications				
Local	\$ 189,966	\$ 194,326	\$ 566,462	\$ 577,799
Long distance	94,142	95,843	282,755	290,845
Wireless	89,226	75,501	242,872	204,129
Other telecommunications	83,108	95,634	248,297	259,137
	456,442	461,304	1,340,386	1,331,910
Information technology				
Fulfillment	27,124	22,699	99,628	112,879
Services	26,135	25,395	82,085	85,589
	53,259	48,094	181,713	198,468
Remote communications				
Mobile satellite services	104,213	91,428	328,468	275,619
Broadband services	32,407	36,787	103,614	107,885
	136,620	128,215	432,082	383,504
Other	175	(22)	908	2,874
	\$ 646,496	\$ 637,591	\$ 1,955,089	\$ 1,916,756

# 14 EARNINGS PER COMMON SHARE

	Three months		Nine months	
	2003	2002	2003	2002
<i>For the period ended September 30 (thousands of dollars except per share amounts)</i>				
Net income applicable to common shares:				
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Net income applicable to common shares from continuing operations	\$ 53,775	\$ 45,092	\$ 160,177	\$ 196,541
Net loss from discontinued operations	(5,227)	(3,336)	(6,944)	(21,599)
Net income applicable to common shares	\$ 48,548	\$ 41,756	\$ 153,233	\$ 174,942
Basic:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Basic earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Basic earnings per common share from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Basic earnings per common share	\$ 0.36	\$ 0.30	\$ 1.11	\$ 1.26
Diluted:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Impact of outstanding stock options	55	—	—	71
	137,961	139,568	138,595	138,790
Diluted earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Diluted earnings per common share from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Diluted earnings per common share	\$ 0.36	\$ 0.30	\$ 1.11	\$ 1.26

Common shares issuable under the terms of the Company's stock option plans have not been included in the calculation of diluted earnings per share for the nine months ended September 30, 2003 and three months ended September 30, 2002 as their effect is anti-dilutive.

# 14 EARNINGS PER COMMON SHARE continued

The table below presents pro-forma net income, earnings per common share and diluted earnings per common share using the fair value method of accounting for the stock option plan. The pro-forma adjustments presented below pertain to new awards granted since adoption of the new stock-based compensation standards on January 1, 2002, excluding those granted in 2003 for which compensation was recorded, as described in note 2.

<i>For the period ended September 30 (thousands of dollars except per share amounts)</i>	Three months		Nine months	
	2003	2002	2003	2002
Pro-forma net income applicable to common shares:				
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Pro-forma adjustments	(305)	(501)	(1,228)	(1,829)
Pro-forma net income applicable to common shares from continuing operations	\$ 53,470	\$ 44,591	\$ 158,949	\$ 194,712
Pro-forma net income applicable to common shares from discontinued operations	(5,227)	(3,336)	(6,944)	(21,599)
Pro-forma net income applicable to common shares	\$ 48,243	\$ 41,255	\$ 152,005	\$ 173,113
Basic:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Pro-forma earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.15	\$ 1.41
Pro-forma earnings per common share from discontinued operations	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.16)
Pro-forma earnings per common share	\$ 0.36	\$ 0.30	\$ 1.10	\$ 1.25
Diluted:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Impact of outstanding stock options	55	—	—	71
	137,961	139,568	138,595	138,790
Pro-forma earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.15	\$ 1.41
Pro-forma earnings per common share from discontinued operations	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.16)
Pro-forma earnings per common share	\$ 0.36	\$ 0.30	\$ 1.10	\$ 1.25

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used:

<i>September 30</i>	2003	2002
Dividend yield	3.76%	3.41 %
Expected volatility	23.30%	25.30 %
Risk-free interest rate	4.44%	4.33 %
Expected lives	6.2 years	7.2 years

# 15 STOCK-BASED COMPENSATION PLANS

At September 30, 2003 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 7,361,746 shares of common stock, of which 2,629,325 options for the same number of common shares were outstanding as at September 30, 2003 (December 31, 2002 – 2,680,450). 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 vest evenly over 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, 2003 and December 31, 2002, and changes during the periods ended on those dates are presented below:

	September 30, 2003		December 31, 2002	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of period	2,680,450	\$ 28.94	2,558,275	\$ 26.67
Granted	289,138	\$ 26.84	633,049	\$ 29.05
Forfeited	(68,482)	\$ 31.12	(73,856)	\$ 25.48
Exercised	(271,781)	\$ 18.75	(437,018)	\$ 16.86
Options outstanding at end of period	2,629,325	\$ 29.71	2,680,450	\$ 28.94
Options exercisable at end of period	1,880,142	\$ 29.93	1,668,501	\$ 27.61

The following table summarizes information about stock options outstanding at September 30, 2003:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$10.63 to \$15.72	103,411	3.1	\$14.01	103,411	\$14.01
\$17.56 to \$20.08	137,364	4.3	\$19.83	137,364	\$19.83
\$21.77 to \$25.55	244,542	5.3	\$22.84	244,542	\$22.84
\$26.79 to \$34.90	1,660,019	8.1	\$30.85	1,023,352	\$32.59
\$35.25 to \$38.10	483,989	7.3	\$35.42	371,473	\$35.43
	2,629,325		\$29.71	1,880,142	\$29.93

The Company expects that approximately 95 per cent of the non-vested awards at September 30, 2003 will eventually vest.

# 15 STOCK-BASED COMPENSATION PLANS continued

## 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 who 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 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 per cent of eligible employees are participating in the plan.

## Employee stock option plan subsidiary companies

A subsidiary of the Company has a stock option plan specific to its own shares. Under this stock option plan, the subsidiary may grant options to plan members. The exercise price of each option equals the fair market value price of the company's stock on the date of grant and an option's maximum term is ten years. Options have varying vesting terms.

As at September 30, 2003, there were 2,490,695 (December 31, 2002 – 2,207,245) options outstanding and 1,022,364 (December 31, 2002 – 679,350) options exercisable. The weighted average remaining contractual life of the options is 6.0 years (December 31, 2002 – 5.9 years) and the weighted average exercise price is US\$8.86 (December 31, 2002 – US\$7.57).

Another subsidiary of the Company had a stock option plan specific to its own shares, which were cash settled during the third quarter of 2003. The plan was discontinued upon settlement of the outstanding options.

# 16 COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments for the next five years and thereafter are as follows: remainder of 2003 – \$34.6 million; 2004 – \$103.6 million; 2005 – \$90.5 million; 2006 – \$86.5 million; 2007 – \$62.6 million; and thereafter \$233.5 million.

# 17 CONTINGENCIES

(a) 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 which could, in the aggregate, exceed \$9 million, 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.

(b) On May 30, 2002 the CRTC released its price cap decision, that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers ("ILECs") for the next four years effective June 1, 2002. The price cap decision, requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market, as a result of mandated rate reductions. Certain mandated revenue reductions are accumulated in an interest bearing deferral account. The deferral account will be reduced by one, or a combination of the following:

- Rate reductions for residential local services that are proposed as the result of competitive pressures;
- Certain rate reductions for services provided to competitors;
- The approval of exogenous factors for matters beyond control of the ILECs;
- Rate increases less than the amount by which inflation exceeds productivity;
- Subscriber rebates; and
- Funding of initiatives that would benefit residential customers in other ways.

# 17 CONTINGENCIES continued

The Company has calculated its deferral account balance to be \$19.2 million as of September 30, 2003 (\$9.6 million – December 31, 2002). The Company has not recognized the deferral account as a liability in its financial statements because it has made a proposal to the CRTC to approve reductions to the deferral account by means other than rebates or rate reductions. If the CRTC rejects this proposal and requires the Company to reduce rates or issue rebates the amount in the deferral account would be charged to income and recorded as a liability.

# 18 SUBSEQUENT EVENT

On October 6, 2003 the Company announced that it had completed the sale of 26,141,024 Subscription Receipts, each of which entitles the holder to acquire one common share of Stratos Global Corporation, upon receipt of U.S. Federal Communications Commission (“FCC”) approval. This approval is anticipated on or before December 31, 2003. Upon completion of this transaction the Company will have sold its entire 53.2 per cent ownership in Stratos Global Corporation.

The Subscription Receipts were sold to a syndicate of underwriters led by RBC Capital Markets at a price of \$13.00 each. The purchase price is payable on an instalment basis, the first instalment was paid October 6, 2003, with the remainder payable shortly following approval from FCC. Instalment Receipts evidencing ownership of the Subscription Receipts commenced trading on the Toronto Stock Exchange on October 6, 2003.

The Subscription Receipts will be automatically exchanged for common shares upon receipt of FCC approval. If approval is not granted on or before February 1, 2004, the proceeds of the offering will be returned to the purchasers of the Subscription Receipts, along with interest earned thereon, and the Company will retain its investment in Stratos.

# 19 COMPARATIVE FIGURES

The comparative financial information has been reclassified to conform to the presentation adopted for 2003.

## EBITDA defined

EBITDA (earnings before interest, taxes, depreciation and amortization) does not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies. Aliant has included EBITDA as an alternate earnings measure because it is an important internal measure of operating performance and is a commonly used valuation measurement in the telecommunications industry. Aliant also believes that EBITDA is used by certain investors and analysts to measure a company's ability to service debt and to meet other payment obligations. Aliant defines EBITDA as operating income (as defined by Canadian GAAP) plus depreciation and amortization. The Company adds back depreciation and amortization because the accounting methods and assumptions used in its calculation can vary by company. Aliant presents EBITDA on a consistent basis from period to period. The following is a reconciliation of EBITDA to operating income on a consolidated basis:

	Three Months		Nine Months	
	2003	2002	2003	2002
<i>(millions of dollars)</i>				
Operating income	\$ 120.9	\$ 115.7	\$ 371.0	\$ 379.2
Depreciation and amortization	\$ 108.3	\$ 109.4	\$ 326.3	\$ 320.6
EBITDA	\$ 229.2	\$ 225.1	\$ 697.3	\$ 699.8

# Owning AIT

## We're here to help

To learn more about Aliant, please visit our Web site at [www.aliant.ca](http://www.aliant.ca). Contact Aliant investor relations for additional financial and statistical information, and industry developments.

Phone: 1.877.248.3113 (toll free in Canada and U.S.)

Fax: 1.877.498.2464 (toll free in Canada and U.S.)

Email: [investor.relations@aliant.ca](mailto:investor.relations@aliant.ca)

Mailing address: Aliant Investor Relations  
PO Box 1113, Station Central RPO  
Halifax, NS B3J 2X1

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

Phone: 1.800.387.0825 (toll free in Canada and U.S.)

Email: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

Web site: [www.cibcmellon.com](http://www.cibcmellon.com)

Mailing address: CIBC Mellon Trust Company  
Investor Correspondence  
PO Box 7010, Adelaide Street Postal Station  
Toronto, ON M5C 2W9

## Where we're listed

Our shares are listed on The Toronto Stock Exchange. Aliant's ticker symbol is AIT.

## Direct deposit of dividends

Registered common shareholders may have dividends deposited electronically into their bank account (in Canada only). Contact CIBC Mellon Trust Company.

## Common share dividend dates for 2003

<i>Record dates</i>	<i>Payment dates</i>
March 15	March 30
June 15	June 30
September 15	September 30
December 15	December 30

## Performance numbers

(as at September 30)

	2003	2002	% change
Network access services — landline	<b>1,509,520</b>	1,528,290	(1.2)
Network access services — cellular	<b>585,915</b>	528,766	10.8
Internet subscribers — high-speed	<b>113,517</b>	92,586	22.6
Internet subscribers — dial-up	<b>186,456</b>	190,719	(2.2)

## Dividend reinvestment plan

Registered common shareholders of Aliant may reinvest their dividends, automatically and without fees, in additional shares of the Company. Also, up to \$10,000 in Company shares may be purchased each quarter with optional cash payments. All administration costs are paid by the Company. A brochure containing information on the dividend reinvestment and stock purchase plan may be obtained by calling CIBC Mellon Trust Company.

## Electronic distribution of materials

Registered shareholders can obtain investor information and reports from Aliant electronically rather than through the mail. To access our online enrollment form, go to [www.cibcmellon.com/electronicdelivery](http://www.cibcmellon.com/electronicdelivery) located on our transfer agent's Web site and follow the simple instructions.

## Stock registrar and transfer agent

CIBC Mellon Trust Company

## Bond trustee, registrar and transfer agent

Computershare Investor Services, and CIBC Mellon Trust Company

## Annual information form

The annual information form as filed with the Canadian securities commissions is available upon request. For further information about the Company, institutional investors, brokers and security analysts should contact Aliant investor relations.

## Common share price range\*

	July	August	September
High	\$29.92	\$31.39	\$32.24
Low	\$28.50	\$29.41	\$30.11
Close	\$29.65	\$30.90	\$31.32

\* Toronto Stock Exchange

# Our vision

*To be the company with the strongest  
connection to the hearts and minds  
of Atlantic Canadians.*

**Aliant Inc.**  
**1.877.248.3113**  
**investor.relations@aliant.ca**  
**www.aliant.ca**



**here. for you.**

**About the front cover**

Powerful. Dynamic. Enduring. Atlantic Canadians share a common bond: The ocean. It has shaped our history and defined our people.  
At Aliant, we bring together Atlantic Canadians too – with technology – to help them share the present and build the future.

*Photograph of wave taken at Peggy's Cove, Nova Scotia*