



ALIANTELECOM INC.

2004 ANNUAL INFORMATION FORM - ENGLISH

March 22, 2005

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CAUTIONARY NOTE

Throughout this Annual Information Form (“AIF”), “we”, “us”, “our”, the “Corporation” and “Aliant Telecom” refer to Aliant Telecom Inc.

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 actual future experiences of Aliant Telecom. Reference is made to the “Risk Factors” and “Forward-Looking Statements” sections for further discussion about the inherent risks and uncertainties surrounding future expectations. Except as otherwise noted, we disclaim 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.

CORPORATE STRUCTURE

NAME AND INCORPORATION

Aliant Telecom Inc. was incorporated on August 4, 1999, under the Canada Business Corporations Act to become the telecommunications arm of our parent company, Aliant Inc. (“Aliant” or “parent company”). Our registered office is at 69 Belvedere Avenue, Charlottetown, Prince Edward Island, C1A 7M1 and our corporate head office is at 1 Brunswick Square, Saint John, New Brunswick, E2L 4K2.

INTERCORPORATE RELATIONSHIPS

The table below presents our principal direct and indirect subsidiaries as at December 31, 2004. The table includes the jurisdiction of incorporation or continuance and the percentage of voting and non-voting securities or partnership interests that we beneficially owned or otherwise controlled directly or indirectly as at December 31, 2004.

Subsidiary or Investment	Jurisdiction of Incorporation or Continuance	Percentage of voting securities which Aliant Telecom beneficially owns, controls or directs
Aliant Telecom Inc.	Canada	
MT&T Mobility Inc.	Canada	100.0%
Atlantic Mobility Products Ltd.	Nova Scotia	45.0%

Certain subsidiaries, which represent less than 10% of our consolidated assets, sales and operating revenues and which, in aggregate, represent not more than 20% of the same consolidated results, have been omitted from the table.

Aliant Telecom is a wholly owned subsidiary of Aliant. BCE Inc.'s ("BCE") indirect ownership of Aliant Telecom is approximately 53.22% (2003 - 53.50%) of our outstanding common shares, which makes BCE our controlling shareholder.

GENERAL DEVELOPMENT OF THE BUSINESS

OVERVIEW

We are a telecommunications-focused company based in Atlantic Canada. We are a wholly-owned subsidiary of Aliant and operate its telecommunications line of business. We provide a wide range of innovative and traditional voice and data communications services including local, long distance, wireless, Internet and other services. We also provide complementary services in wholesale distribution of wireless handsets, accessories and other telecommunications products.

THREE YEAR HISTORY

2004 Highlights

In 2004, we realigned our organization to bring our operations closer to our parent company's Information Technology segment, operated by xwave Solutions Inc. ("xwave") enabling us to deliver one point of contact with business customers and provide integrated end-to-end Information and Communications Technology ("ICT") solutions.

Labour Disruption and Voluntary Early Retirement Incentive Program

Our 2004 performance was marked by a five-month labour disruption that ended on September 20, 2004. While approximately 4,300 unionized employees withheld their services, management continued to provide our full range of services and products to our customers. A new collective agreement was signed which lasts until December 2007 and which provides us with greater flexibility to manage our workforce in a highly competitive and rapidly changing marketplace. The labour disruption is estimated to have negatively impacted our 2004 net income by \$46 million.

In October 2004, we offered a voluntary Early Retirement Incentive Program ("ERIP") to eligible employees. The offer was accepted by 654 employees or 11% of our workforce. The ERIP resulted in a \$62.2 million charge against income in the fourth quarter of 2004, reducing net income by \$39.4 million. This program is expected to generate an estimated \$38 million in annualized operating expense savings and reduce annual labour costs in capital investments by \$8 million.

Both the settlement with our unionized employees and the ERIP resulted in material changes to the costs of providing pensions and other post-employment benefits (OPEB) in 2004 and future years.

Outlook for 2005

We are moving forward with a strategy of growth and transformation that will assist us in our goal of becoming the foremost ICT company in Atlantic Canada. We plan to transform our business model, customer service experience, products and services, internal systems, workforce and infrastructure

over the next five years to respond to and leverage the impact of Internet Protocol ("IP") based technology.

The wireless and high-speed internet businesses continue to be high growth areas in Atlantic Canada. In 2005, we will continue to expand our wireless digital voice network and our wireless data network (1xRTT) to 91% of the region, up from 88% at year end 2004. We will also continue to expand our broadband network to reach 79% of homes and 84% of businesses, up from 72% of homes and 79% of businesses at the end of 2004, while deepening our coverage to provide even greater bandwidth.

In the consumer market, we plan to provide IP-television ("IPTV") service during the second quarter of 2005 in Halifax. This expansion into IPTV advances our work to accelerate the development and deployment of IP-based applications for Atlantic Canadians and will further strengthen our position as the service provider of choice for communication, information and entertainment solutions.

In addition, to spur growth in the small-to-medium-sized business ("SMB") and enterprise segments, we will leverage our competencies with our parent company's information technology ("IT") businesses as Aliant evolves to an ICT solutions provider. During the fourth quarter of 2004, we teamed our sales organization with Aliant's Information Technology sales group, creating one, aligned ICT sales force, focused on capturing new growth from the ICT market.

DESCRIPTION OF THE BUSINESS

BUSINESS OF ALIANT TELECOM

Employees

As of December 31, 2004, we had 6,149 employees (2003 - 6,363, 2002 - 6,102). Approximately 66% of our workforce was unionized as of December 31, 2004. Effective January 1, 2005 our employee numbers were reduced by approximately 400 as a result of the ERIP offered in the fourth quarter of 2004. A total of 654 of our employees accepted the voluntary offer, with the remainder having scheduled retirement dates extending through early 2005.

Products and Services

We provide a wide variety of innovative and traditional communications services, including local and long-distance telephony, wireless, Internet, e-commerce, interactive multimedia, data and network management. Atlantic Canada is the principal market in which we operate. We focus on three customer segments: consumer, SMB and enterprise.

Local

Local revenue is derived from providing the following services:

- Network access service - monthly access charges for provision of local telephone service;
- Enhanced service features - value added services such as call answer, call display and call forwarding;

- Data access - local data access services such as frame relay, asynchronous transfer mode and interoffice digital access;
- Contribution payments - subsidies from the telecommunications industry-financed National Contribution Fund for the provision of residential local service in high cost areas;
- Competitor payments - rates paid by competitors that access our local network; and
- Other revenues - from telephone set rentals, payphone usage and service charges.

Long distance

Long distance revenue is derived from providing the following services:

- Toll service - long distance voice services including toll-free service;
- Data network service - long distance data transmission circuits; and
- Long distance terminating - the rates paid by other telecommunications carriers for long distance calls terminating with our customers.

Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over our analog and digital wireless network. Cellular revenues consist primarily of monthly recurring charges and also include charges for airtime, long distance, roaming and enhanced service features such as text and video messaging. Customers can choose to pay for their cellular service through a monthly rate plan (postpaid) or in advance (prepaid).

Internet

Internet revenue is derived from high-speed (regular and ultra) service, dial-up service and enhanced services and applications such as TV on my PC™, security services, music download service and dial-up accelerator.

Other revenues

Other revenues are primarily derived from telephone directory advertising, equipment sales and pole attachment revenues.

The following tables summarize revenue for each category of principal products or services. Revenues are further summarized by the source from which they are derived: external customers, BCE and its controlled interests, and parent company and its controlled investees.

Revenue by Category

For the year ended December 31, 2004

(in thousands of dollars)

Revenue category	Revenue source:			Consolidated operating revenue
	External customers	BCE and its controlled investees	Parent company and its controlled investees	
Local	\$ 716,395	\$ 33,856		\$ 750,251
Long distance	259,356	82,010	7,143	348,509
Wireless	382,188	4,173		386,361
Internet	119,089			119,089
Products	109,738			109,738
Other	14,992	2,118		17,110
Operating revenues	\$ 1,601,758	\$ 122,157	\$ 7,143	\$ 1,731,058

For the year ended December 31, 2003

(in thousands of dollars)

Revenue category	Revenue source:			Consolidated operating revenue
	External customers	BCE and its controlled investees	Parent company and its controlled investees	
Local	\$ 742,506	\$ 22,535		\$ 765,041
Long distance	291,192	92,777	10,334	394,303
Wireless	323,486	9,032		332,518
Internet	106,584			106,584
Products	122,266			122,266
Other	25,162	4,680	1,019	30,861
Operating revenues	\$ 1,611,196	\$ 129,024	\$ 11,353	\$ 1,751,573

We are not dependent on any single customer for 15% or more of our revenues or income, but larger business customers and government agencies do account for a significant portion of our revenues.

Cycles

Our operating revenues and expenses have historically experienced some degree of seasonality. Wireless revenues peak in the third quarter resulting from increased airtime, long distance and roaming during summer vacations. The timing of product sales, which are typically large and sporadic in nature, can affect the comparability of quarterly results.

New products and services

We are constantly evaluating our market and changing our product and service offering to better meet the needs of our customers. These changes can involve pricing, packaging and new products, such as those outlined below.

In 2004, we introduced new wireless products through the introduction of the Palm Treo™ device and other handsets with expanded data and video capabilities. We were also the first to launch video messaging in Atlantic Canada. We also introduced international text messaging.

We also launched new Internet services in 2004. More specifically, we added our Ultra High-Speed Internet service, a new pay-per-download music service powered by Puretracks™ and our dial-up accelerator, which allows dial-up speeds up to five times faster than traditional dial-up service.

Our development efforts in 2004 focused on the following:

- Collaborating with our business customers to develop IP-based solutions through the launch of three Voice over Internet Protocol (“VoIP”) demonstration centers, enabling us to work with our enterprise customers. We also worked with Bell Canada towards the launch of a SMB Innovation Centre in 2005.
- Developing a Fibre-to-the-Home solution that was launched in January 2005 as a pilot project in Halifax. This project delivers VoIP and high-speed Internet at speeds almost ten times faster than regular high-speed and will allow us to trial future IP-based solutions.
- Developing an IPTV solution for our consumer market which will allow us to provide digital television service. An employee trial is already underway and we will begin the rollout of this service to our customers in Halifax in the second quarter of this year.

Marketing and distribution channels

We sell our products and services through approximately 1,500 call centre representatives, 150 direct sales representatives, 250 independent dealer stores, 51 Downeast stores that our parent acquired in October 2004 and our Aliant.net website. As well, we are able to facilitate customer payments through over 250 payment agencies. During 2004, we made process improvements to simplify and speed-up various types of customer interactions and introduced online ordering on our website.

Our ability to combine service offerings is integral to our success, driving loyalty and protecting our customer base. In 2004, we improved our offerings to the consumer market by completing the introduction of Value Packages. Value Packages combine high-speed or dial-up Internet service with the customer’s choice of a long distance plan and, if desired cellular service. In 2005, Value Packages will include a television option. In our business market, we also provide combined service offerings in the form of business bundles and customized solutions.

Evolution of our network

We continue to build a state of the art Next Generation Network (“NGN”) that shall position our business to grow while providing new innovative services to our customers. We shall continue to invest

in IP-based network infrastructure and customer centric applications such as VoIP, Optical Ethernet ("OE") and Virtual Private Network Enterprise services. Our network will incorporate emerging and mature standards such as Session Initiation Protocol, Worldwide Interoperability for Microwave Access, and Multi Protocol Label Switch ("MPLS") as part of the transition to NGN. By building and positioning the network to support future IP-Video based services, the investments we are making in the network will increase its longevity.

In 2004, we placed greater emphasis on our next generation business by upgrading our network and services to be IP capable. In conjunction with Bell Canada, Nortel Networks and our other technology partners, we will continue to build the network to support VoIP, OE and MPLS based services as customer demands, customer needs and technology dictate.

We continue to actively invest and partner with communities and government to realize the objectives and vision of Industry Canada's Broadband for Rural and Northern Development ("BRAND") program. BRAND is an initiative designed to bring broadband service to Aboriginal, northern and rural communities across Canada. In New Brunswick, we also worked in partnership with the provincial and federal governments to deliver broadband infrastructure to rural communities. These partnership opportunities complement our overall investment in the growth and expansion of our Broadband High-Speed Internet DSL based service.

Our NGN transition also includes our mobile wireless network. The evolution of our existing Code-Division Multiple Access ("CDMA") voice wireless network to 1xRTT was completed in 2004. Our network now delivers the fastest wireless data speeds with the best coverage in Atlantic Canada. The rapid adoption of wireless data services by our customers has prompted us to advance our next phase of CDMA evolution called 1x Evolution Data Optimized ("1xEVDO"). 1xEVDO mobile IP technology provides even faster access to the Internet, e-mail, instant text-messaging, games, corporate networks and data, which will bring a new level of appeal for wireless devices among customers seeking a personalized, feature-rich mobile experience.

Specialized Skill and Knowledge

We are adopting IP based technologies at an increasing rate with the convergence of traditional telecom technologies and IP. Employee development programs have been developed to advance the skills of network employees in IP based technologies. Our emerging ICT strategy maximizes the unique skill set we deliver with the integration of unique network skills such as switching, transport and wireless with those in the IT sector. Initiatives are underway to team the traditional network staff with IT staff in order to increase our ICT capabilities. Furthermore, cross-training programs are available to further the knowledge of each of the groups in both network and IT.

Competitive Conditions

Atlantic Canada continues to be among the most competitive telecommunications markets in North America, especially for local telephone and wireless service. We expect that competition will continue to intensify, fuelled by technology evolution.

Local and Long Distance

Atlantic Canada is the only market in Canada where consumer local service is substantially more competitive than business. A competitive local exchange carrier ("CLEC") offers competing services in several local markets in Nova Scotia, including our largest market, Halifax, Prince Edward Island and parts of New Brunswick. In addition, an existing long distance competitor has entered the local service market using both traditional wireline and VoIP in Halifax.

Competition for long distance began a decade ago and continues to grow in intensity. Competition includes dial-around providers, prepaid card providers and others, from traditional competitors to resellers. Competitors compete for local and long distance service based on price, bundling with other offerings and low "block of minute" long distance packages.

Various companies, ranging from national cable companies to new entrants in our market, have announced their intention to launch VoIP in 2005. VoIP technology provides a low-cost means for new competitors to enter the market as there is no requirement to invest in physical networks. As VoIP technology evolves, companies that did not traditionally offer voice solutions are now able to compete in our ICT market. This new class of competitors, including IT providers, network vendors and system integrators, are exerting competitive pressure on pricing. Our ability to compete with these new market entrants could be affected by an upcoming Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") decision on whether VoIP be regulated. The decision is expected in the first half of 2005. The increasing presence of VoIP is expected to intensify the competitive pressure on pricing and could affect our financial performance.

Wireless

The wireless market in Atlantic Canada is very competitive. It is served by Aliant and two national service providers. Competitors in our consumer market are increasingly advertising free phones, new phones and new plans for Atlantic Canadians with reduced long distance pricing. Competition in wireless long distance service in both the consumer and business markets is similarly intense. This competition has put pressure on revenues and margins; however our proactive efforts will enable us to maintain revenue growth and margins.

Internet

Across the consumer and SMB markets, competitors continue to focus on speed and price while attempting to evolve their offerings with additional value-add services. The continued aggressive competition for Internet customers has positioned Atlantic Canadian prices among the lowest in North America. While high-speed penetration has surpassed dial-up, consumer high-speed penetration is less than the Canadian average, mainly because close to half of Atlantic Canadians live in rural areas.

Bundles

Consumers are increasingly seeking a provider who can meet all their information, communication and entertainment needs. Bundling services at a discount is an important selling feature as all competitors, including Aliant Telecom, vie to increase their total revenue per customer. In the consumer market, we are seeing the emergence of packages that combine information, communication and entertainment solutions. Such solutions combine aspects of local and long distance over wireline and

wireless networks, Internet, television and additional related services and applications. In 2004, one major competitor in Atlantic Canada created a new partnership to increase the number of services in its “bundled solutions”. In the business market, we see a new focus on integrated ICT solutions. The growing prevalence of packaged offerings increases the potential revenue loss associated with the loss of each customer but also represents a greater opportunity to enable customer retention.

Intangible Properties

All trademarks, or corporate, trade or domain names used in this AIF are the property of their owners. We believe that our trademarks, brand and domain names are important to our success. Our exclusive trademark registrations may be renewed every 15 years provided we continue to use the trademarks in our business activities. We take appropriate measures to protect, renew and defend our trademarks. We spend considerable time and resources overseeing, registering, renewing, licensing and protecting our trademarks and prosecuting those who infringe on them. Given our great sensitivity to the importance of these assets, we are also very careful not to infringe the intellectual property of others.

Relationship with BCE and Bell Canada

Memorandum of Agreement with BCE & Bell Canada

On March 19, 1999, Aliant entered into a Memorandum of Agreement (“MOA”) with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding between Aliant, BCE and Bell Canada with respect to a strategic alliance for the provision and delivery of telecommunications services.

The MOA identifies the Atlantic Provinces as Aliant’s serving territory and Quebec and Ontario as the serving territory of Bell Canada. The MOA provides that Aliant is the vehicle by which telecommunications services will be offered in Aliant’s territory, and commits BCE and Bell Canada to the development and growth of a strong and independent Aliant. The MOA assures that Aliant is Bell Canada’s preferred supplier of telecommunications services offered in the Atlantic Provinces and it identifies specific areas of co-operation for the purpose of providing seamless delivery of services.

Through this MOA, Aliant Telecom gained access to Bell Canada’s technology, the exclusive right to use specified Bell Canada trademarks in our territory, and a license to use Bell Canada’s promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by Aliant. Aliant and Bell Canada agreed to provide each other with support services, including access to operational support and technical, marketing, training and similar assistance. Aliant Telecom has and will continue to attempt to achieve benefits resulting from collaboration such as the aggregation of traffic and purchasing requirements.

With an initial term of five years, the MOA will continue in effect for as long as BCE holds an interest in Aliant of at least 10%, subject to termination rights on the occurrence of certain specified events. BCE agreed not to proactively increase its ownership interest in Aliant beyond 55% except by making an offer for all remaining common shares. BCE is entitled to appoint at least two directors to an Aliant board of 13 directors (which can be increased to 15 directors without BCE’s consent or additional representation). BCE currently has 5 directors appointed to the Aliant board.

Bell network alliance

In 2002, with the objective of developing a more integrated network infrastructure between Aliant Telecom and Bell Canada, we signed a Network Outsourcing Agreement ("NOA") under which:

- Bell Canada provides Technology Planning & Development engineering services for the strategic evolution and development of Aliant Telecom's network architecture and services platform;
- Bell Canada also provides Network Planning & Provisioning services for the planning, design and deployment of Aliant Telecom's network infrastructure for annual growth and augmentation; and
- Aliant Telecom manages and approves network capital expenditures, manages technology introduction and supports the development of enhanced service applications.

We also signed a bi-lateral Intellectual Property Agreement with Bell Canada that provides access to a broad spectrum of each other's intellectual property in addition to providing us with access to Bell Canada's engineering and network intellectual property.

Through these agreements we are able to leverage the economies of scale of Bell Canada's engineering organization to plan and develop our network infrastructure. This supports the following:

- migration to common network technologies;
- sharing best-in-class systems and processes;
- improvement to customer service delivery and support;
- reduction of capital and operating expense costs; and
- reduction of provisioning intervals for technology deployment to support new services.

The implementation of the NOA began in early 2003. During 2004, we strengthened our alignment with Bell Canada on new technology research and development to further increase the benefits realized under this agreement. The integration of key systems and processes was delayed in 2004 and is expected to be completed in 2005.

Environmental Policy

Protecting our people and the environment is a top priority in all aspects of our operations. Our employees work together effectively:

- to identify activities and situations which may have potential to harm the environment; and
- to implement environmentally positive practices and preventive measures.

Our environmental program ensures we comply with regulatory requirements and we monitor results to minimize risk to the environment. This policy is implemented through training and awareness, and is

integrated into operations to ensure that we do not create significant impact to the environment in the course of our regular operations. We have an environment emergency response procedure in place in case an incident occurs. The policy statement itself is reviewed regularly and authorized by our chief operating officer.

The costs of the environmental program are not expected to have a material impact on earnings, capital expenditures or our competitive position in the current year or future years. As well, management is not aware of any environmental matters that materially threaten our future earnings or financial and competitive position. In the event there is a significant environmental infraction, it will be brought to the attention of our Audit Committee.

RISK FACTORS

Management is confident about our long-term prospects, but we recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. The risks noted are outlined in order of seriousness, but may not be exhaustive as there may be other risks of which we are currently unaware or that we presently consider insignificant to our consolidated operations.

Ability to achieve strategies and plans

We plan to achieve our business objectives in 2005 through the performance of key strategic initiatives under our strategy of growth and transformation. These initiatives are fully discussed in Management's Discussion and Analysis for the year ended December 31, 2004.

These initiatives will have a wide-reaching impact, transforming our customer interactions, our internal processes, our network and our people. If we are unable to implement these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives. As a result, our financial performance, including our growth prospects, could be negatively impacted.

Economic environment

Changes in general economic conditions, customer confidence and spending affect the demand for, and prices of, our products and services. In particular, a downturn in general economic conditions could lead to:

- lower than anticipated demand for IT services and products and integrated ICT solutions;
- 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
- higher than anticipated bad debt expense due to increased credit risk.

The existence of these conditions or the emergence of new conditions could reduce revenues or increase costs, negatively impacting results. We constantly monitor economic conditions to enable us

to respond by implementing strategies to mitigate risks or adjusting assumptions used in recording the effects of these risks on our results.

Competition

Competitive conditions are constantly changing and we expect increased competition in the future. We have strategies in place to mitigate the risk of competition that involve deepening customer relationships, enhancing our services and packages to create compelling value, improving our cost structure to enable greater price competitiveness and expanding our IP network and our capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk, and as such might have a negative impact on future revenue growth and profitability. In recognition of this, we constantly monitor our marketplace and respond accordingly to ensure we maintain our leadership position.

Reliance on systems

We rely on complex business and administrative systems to enable us to provide services to customers, manage customer relationships, issue invoices, manage inventory and support many other vital activities. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and the related data. Our operations depend on how well we protect these components against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism and other events. Any of these events could cause interruption or shut down of our operations. Our systems are connected with the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned previously, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could hurt our business, including our customer relationships and operating results.

Changing technology

We operate in an industry that experiences constant change, driven by rapid advances in technology, evolving industry standards, customer demands and short product life cycles. Our success is dependent on our ability to anticipate and respond to these changes in order to effectively deliver new services and technologies to our customers.

There is a risk associated with adopting new technologies to serve our business needs. New technologies may have shorter than anticipated product life cycles due to evolving standards or sudden advances in the development of competing products or services. This may result in increased re-engineering costs to incorporate new technology and may cause current products or services to become unmarketable or could cause prices to fall, resulting in a negative financial impact.

We are continuing the evolution of our network from a circuit-based technology infrastructure to an IP infrastructure. This evolution enables the development of enhanced services for our customers through the integration of voice, data and video. This integration plays a significant role in increasing operating and capital efficiency. In some cases, significant investments need to be made before it can be determined if the new services will be successful in the marketplace. There is no assurance that customers will adopt these new services or migrate from existing services in a reasonable period of time.

The adoption of new IP-based services may be impacted by the customer perception of the security related to IP networks. There are no assurances that solutions will be available to allow service providers to totally defend customers against all forms of computer viruses and attacks.

We are 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. The success of new products is impacted by a number of factors, not all of which are under our control. Considerable effort is expended to ensure we correctly interpret, predict and respond to changes in technology, the regulatory environment, partner relationships and customer demand. However, we are not immune to sudden or unanticipated changes in any of these areas. This may result in the failure of new services and products to meet expectations and result in lower than anticipated net income.

Regulation

Our business is affected by decisions made by the CRTC. While the CRTC has taken steps to forbear from regulating prices for services offered in some competitive markets, such as long distance, wireless and some data services, they continue to ensure that there is a competitive Canadian environment for telecommunications services through continued regulation of certain services offered by incumbent local exchange carriers ("ILEC"), like Aliant Telecom. In past years, our profitability has been negatively impacted by regulatory changes concerning the rates charged for price-regulated services, the contribution regime and service bundling. The outcome of future regulatory reviews could have an impact on our ability to compete effectively and our future revenues and costs.

The CRTC is currently reviewing a number of items that could significantly impact us. These include promotions and win-back restrictions applicable to ILECs, new floor price rules for ILECs' price-regulated services, regulation of VoIP services, and the deferral account mechanism. Future hearings are also expected in response to our application for forbearance from price regulation of certain local services as well as a proceeding to review the regulatory regime that will be effective for the third price cap period beginning in 2006.

Overall, we are engaging the CRTC in an effort to secure a more balanced regulatory environment and will continue to do so with a view of moving away from the current regulatory regime, which effectively subsidizes competitors and limits customer choice, toward a regulatory framework more conducive to fair competition. We welcomed the federal government's February 23, 2005 announcement of a review of Canada's telecommunications policy and regulatory framework. We will participate fully in the review process with a view to assisting in the achievement of the government's objective of promoting a vibrant and internally competitive telecommunications sector to the benefit of consumers and industry.

Regulatory requirements can negatively affect us and our customers

While the prices of telecommunications services offered by CLECs are free from rate regulation, many of our local and other telephone service rates continue to be regulated by the CRTC. Any change in the regulations governing these services can potentially impact us. The CRTC Price Cap decision of May 2002, which extends through May 2006, set the upper limits on the prices for our price-regulated local and other telephone services. The price cap mechanism and increasing local competition in our major markets are constraining factors in our ability to grow local service revenues. In addition, CRTC-

imposed restrictions on ILECs' bundled services and marketing activities negatively affect our ability to respond to customers' expectations and thus, negatively affect our revenues.

Restrictions on ILEC promotions and win-back activities

It is apparent that the degree of regulation on our local service offerings is increasing. In 2003, the CRTC suspended any further approval of tariffs for win-back of customers and other types of promotions in the local wireline market. Then, in the first quarter of 2004, in its interim determination regarding a competitor's application, the Commission extended the previous three-month no-contact restriction to twelve months. The no-contact restriction prevents the ILECs from attempting to win-back residential customers who have switched to a competitor. The extension of the length of time the restriction applies will negatively impact our ability to provide the affected customers with choice of service provider. Together with other ILECs, we provided evidence and argument to the CRTC as to why such restrictions should not exist and why they were contrary to the public interest. A final CRTC determination on these and related issues is expected in 2005.

Price floors

During 2004, the CRTC conducted a proceeding regarding proposed changes to how floor prices would be determined for the regulated services of ILECs, how ILEC service bundles could be priced and how ILEC volume and term contracts could be developed. Should the CRTC ultimately rule to increase the floor prices of our regulated services and bundles, it would make our prices for such services less attractive than those of our competitors. Furthermore, if the CRTC alters the rules on volume and term contracts, it could make it more difficult for us to provide competitive pricing proposals to tenders issued by large customers. An increase in price floors may also undermine the global competitiveness of Canadian-based businesses.

The submissions by parties in this proceeding were completed during 2004. The ILECs, consumer groups and business customer groups opposed any new restrictions while competitors supported the CRTC's proposed restrictions on the ILECs or requested stronger measures. Any new restrictions on the floor prices for regulated services could limit our ability to satisfy customer requirements and could negatively affect our financial performance. A decision is expected in 2005.

Regulation of VoIP services

During the year, the CRTC conducted a proceeding concerning the regulatory framework for voice communications using Internet Protocol. The CRTC indicated that it supports imposing rules for some VoIP services, similar to those that currently apply to traditional local phone services. During the proceeding, together with Bell Canada, SaskTel and Telebec, we urged the CRTC to refrain from regulating prices for VoIP services and allow all VoIP service providers to compete for customers according to the same rules. There is a risk that the CRTC may rule contrary to our position and create an environment in which we are subject to price-regulation while competitors are not. This would negatively impact our future revenue potential.

Rates for services provided to competitors

There are a number of CRTC proceedings underway reviewing the cost-based rates for certain services provided to competitors. If the CRTC approves final rates that are significantly lower than current

rates, our revenues and competitive position could be negatively affected. Competitors would be able to obtain underlying facilities at lower rates than would otherwise be available and this would lower their operating costs and improve their competitive position.

In addition, during 2004, some competitors requested that the CRTC expand the list of services on which competitors receive preferential pricing to include certain inter-exchange services in our operating territory. We responded to these requests by demonstrating to the CRTC why such treatment is inappropriate and inconsistent with the goal of establishing economically sound and sustainable competition. There is a risk that the CRTC may approve the competitors' request, in whole or in part, and this could have a negative effect on us, including reduced revenues from competitors as well as retail service price cross-impacts.

Competitor Digital Network Service

The CRTC released Decision 2005-6 on February 3, 2005, regarding Competitor Digital Network (CDN) services. This is a follow-up to the 2002 Price Cap Decision which established interim digital network access prices. This decision now establishes how ILECs are to provide digital network services to their competitors. The CRTC decided that all digital network accesses used by competitors, other than for resale, are CDN services and expanded the scope of CDN services to include other non-access services. The CRTC decided that some CDN services should not be priced as essential facilities but should include "appropriate mark-ups" to encourage competitors to construct their own facilities.

As a result of this decision our competitors will now pay much less for some of our services. Some pricing changes are retroactive while others will only apply going forward. The negative impact that this will have on our revenues in 2005 is estimated to be in the range of \$5 to \$6 million. The revenue reductions will be applied against our deferral account. We must file the associated estimated drawdown from our deferral account with the CRTC.

Deferral account

In 2004, the CRTC initiated a public proceeding to review the amounts in the ILECs' deferral accounts and to determine how to dispose of any of these amounts. On January 28, 2005, we filed a proposal for the disposition of amounts in the deferral account, which included: funding of rate reductions in response to competitive pressures, recovery of funds used to deploy telecommunications devices for the deaf for payphones pursuant to a CRTC directive, funding E9-1-1 enhancements in Atlantic Canada, and recovery of a number of costs and lost revenue impacts resulting from events that were beyond our control.

In 2004 and in March 2005, the CRTC issued decisions on some of the items that affect the amount in our deferral account. We expect that the deferral account proceeding will continue throughout 2005. We have not recognized the deferral account as a liability in our financial statements, but a liability should one arise will be charged to operating income or capital investments, as appropriate. We estimate the deferral account balance could be between \$3 million and \$37 million. For additional information on the deferral account, refer to note 21 of our financial statements for the year ended December 31, 2004.

Local services forbearance application

On April 7, 2004, we filed a forbearance application with the CRTC requesting them to stop regulating local residential phone service within certain areas of Nova Scotia and Prince Edward Island where there is significant local residential competition. A copy of this filing entitled "Forbearance application for residential wireline local services in specified exchanges" can be found at www.aliant.ca.

The CRTC's Three-Year Work Plan for the years 2004 to 2007 indicates that the CRTC expects to address local forbearance during the April 2005 to March 2006 time frame. If the CRTC ultimately denies Aliant Telecom's application, we expect to experience continued market share degradation, as our ability to compete will continue to be hindered.

In addition to the forbearance request, our April 7, 2004 application also requested that the CRTC provide us with immediate exemption, in specified geographic areas, from several past CRTC decisions that negatively affect customers in competitive areas, including:

- suspension of the prohibition on promotional offers to local customers and on waiving service charges for customers who choose to return to us for local service;
- removal of the twelve month period in which we are not allowed to contact customers who have left our local service to invite them to return to us; and
- reinstatement of our ability to file proposed promotions in confidence with the CRTC, such that our competitors would not have advance notice of our special promotional offers.

During April and May 2004, the CRTC requested and received ILEC, competitor and customer group comments on whether our request for expedited relief should be dealt with by the Commission in an expedited process separate from the forbearance process.

In an August 2004 determination, the CRTC denied our request for a separate expedited proceeding and indicated that our request for relief from the above identified restrictions will be considered as part of a proceeding in which our request for forbearance for local service will also be considered.

Planned proceeding to review regime for third price cap period

The second price cap period, under the CRTC Price Cap Decision of May 2002, is expected to end in June 2006. Under the price cap regime, the prices for certain ILEC services were capped at an index calculated using a target productivity factor and an inflation measure. During years where inflation was lower than the target productivity factor, the ILECs were required to reduce certain retail prices.

It is expected that the CRTC will schedule a proceeding to review this and other pricing mechanisms. During previous price cap review proceedings, the ILECs, competitors and other interested parties have made extensive proposals regarding many aspects of the regulatory regime that apply to ILECs. These wide-ranging reviews can lead to CRTC decisions that can greatly affect customers, competitors and us.

Legal contingencies and changes in laws

We review all legal proceedings and make an assessment of the likelihood of a negative outcome and the estimated impact. Losses are accrued when a potential loss is deemed probable and the impact can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on our results of operations, cash flows and financial position in the period in which the judgment or settlement occurs.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

Capital management risks

The financial transactions we participate in may expose us to credit, interest rate and financial instrument risks. Periodically, we use interest rate swaps and swaptions, forward contracts and forward rate agreements to manage our exposure to interest rate risk associated with our long-term debt or firm commitments. The terms of these derivative contracts match the terms associated with the underlying long-term debt or other hedged obligation. These contracts are generally used to reduce risks in financing costs and to diversify our access to capital markets.

Credit risk

We are exposed to credit risk with respect to accounts receivable from customers, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis.

Interest rate exposures

Our long-term debt consists primarily of fixed interest rate financing. We have in place an interest rate swap agreement that involves us exchanging our underlying fixed interest rate on a notional \$100 million of long-term debt for a floating interest rate. The foregoing results in approximately 11.3% of our aggregate debt being exposed to short-term fluctuations in interest rates.

Post retirement benefits

We provide pension plans and non-pension post employment benefits to qualified employees. These include defined benefit ("DB") pension plans, defined contribution ("DC") pension plans, retirement savings plans and OPEB plans, such as life insurance and health care plans. Our DB pension plans require actuarial valuations at least every three years to determine annual funding requirements. Low investment returns from the years 2001 and 2002, combined with steadily declining interest rates, which are used to value the liabilities associated with these plans, have contributed to a significant increase in the net deficits in these plans.

Based on valuations as of December 31, 2003 and estimates of additional funding requirements resulting from the plan amendments made in 2004, required funding for 2005 is estimated to be in the range of \$70 to \$80 million. This estimate is subject to change, as we remain exposed to general

future valuation risk. Actuarial valuations will be required as of December 31, 2004, for all of our DB pension plans, and required funding levels for 2005 and beyond will change as a result of these updated actuarial valuations. The impact of recent plan amendments will result in increased annual contribution requirements. Past service benefits and plan enhancements stipulated in the new collective agreement, pension enhancements offered to non-unionized employees and the increased pension obligation arising from the ERIP will all have a significant effect on future funding requirements. In light of these factors, we made an additional voluntary cash injection of \$60 million in February 2005. In addition, if the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than initially anticipated, the valuations could result in either lower or higher minimum required contributions.

In 2005, we will also be reviewing our projections for growth in our OPEB liability given the changing demographics of the workforce and the complement of retirees resulting from acceptance of the October 2004 ERIP offer.

DIVIDEND POLICY

We pay dividends on our common shares to Aliant in such a manner and amount so as to fund quarterly dividend payments on Aliant's common shares and to manage our capital structure in an appropriate range. We paid dividends of \$185.0 million to Aliant during 2004 and \$180.0 million in 2003.

DESCRIPTION OF CAPITAL STRUCTURE

GENERAL DESCRIPTION OF THE CAPITAL STRUCTURE

We had \$889.5 million (2003 - \$989.7 million) of public debt issues as at December 31, 2004. The foregoing was composed of \$185.0 million (2003 - \$185.0 million) of first mortgage bonds that are secured by our assets, \$700.0 million (2003 - \$800.0 million) of unsecured debentures and medium term notes ("MTNs") and \$4.5 million (2003 - \$4.7 million) of capital lease obligations.

As of December 31, 2004, we had operating line of credit available of \$42.0 million (2003- \$42.0 million). The balance outstanding on this was \$0.8 million (2003 - \$4.5 million).

Our outstanding common shares are wholly owned by Aliant.

CONSTRAINTS

While the common shares of Aliant Telecom are not publicly traded, the Telecommunications Act imposes foreign ownership limitations. Section 16 of this Act requires that in order to be eligible to operate in Canada, a telecommunications common carrier must be a "Canadian-owned and controlled corporation," incorporated or continued under the laws of Canada. Subsection 16(3) of the Act requires that Canadians beneficially own, directly or indirectly, in the aggregate and otherwise than by way of security only, not less than 80% of the corporation's voting shares issued and outstanding.

In 1994, the Government of Canada promulgated the Canadian Telecommunications Common Carrier Ownership and Control Regulations, which set the minimum Canadian ownership level for ownership at

the holding company level at 66 2/3% of voting shares. Aliant, as the publicly traded holding company owning Aliant Telecom, maintains our foreign ownership limits within this constraint.

RATINGS

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. Long-term debt ratings are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. The Dominion Bond Rating Service ("DBRS") long-term debt rating scale ranges from "AAA", which represents highest credit quality, to "D", in arrears. Similarly, Standard & Poor's ("S&P") ratings range from a high of "AAA" to a low of "D". For DBRS and S&P, a designation of "high" or "low" and "plus" or "minus", respectively, after a rating indicates an issuer's relative strength within the rating category. The lack of one of these designations indicates a rating that is essentially in the middle of the category.

Our solid financial position and stable outlook were affirmed in 2004, as indicated in the accompanying table, by credit ratings issued from S&P and DBRS. Our ratings have remained consistent throughout 2003 and 2004.

Credit ratings	DBRS	S&P
Aliant Telecom		
First mortgage bonds	A stable	A+ stable
Debentures and MTNs	A stable	A stable

The "A" rating range from DBRS is considered satisfactory credit quality. While the protection of principal and interest is substantial, these entities are considered more susceptible to adverse changes in financial and economic conditions and are more cyclical biased than higher rated companies. For S&P, the "A" rating represents a strong capacity to meet financial commitments, but is more vulnerable to a difficult economic environment than higher ranked companies.

DBRS highlights the following challenges to our current credit rating. Aliant Telecom lacks size relative to other North American telecommunications companies, with only 1.5 million network access subscribers. The foregoing is related to the fact Aliant Telecom operates in Atlantic Canada with lower population and economic growth rates than the national average. These factors contribute to limited growth opportunities in Atlantic Canada. However, this limitation also acts as a major barrier to entry against new competition.

DBRS also noted that while technology changes rapidly, infrastructure enhancements are expensive to initiate. In the past five years, Aliant Telecom has invested heavily in broadband and wireless infrastructure, with no guarantee that these services will provide new revenue growth. Future investments may drive capital expenditure levels higher within the next five years. At that time, DBRS remarked we lacked a long-term television solution to complete our current suite of communication services. Instead, our solution was to use satellite provider Bell ExpressVu to offer video services.

Meanwhile, the most recent rating rationale from S&P discusses additional risks. We have experienced some erosion of residential subscribers, primarily to an incumbent cable operator in the Nova Scotia

and Prince Edward Island markets. We have largely offset declines in local revenues as well as marginal declines in long distance revenues through growth in wireless and high-speed Internet revenues. A large portion of our revenue comes from local and long distance voice services, which may come under increased pressure in future from new entrants offering VoIP. Although VoIP is not expected to impact results over the near term, the long-term effects could be more significant. To maintain our ratings, we must continue offsetting declines in these areas through growth in wireless and internet services, and maintain a strong financial profile.

Additionally, S&P expects that we will continue to have modest funding requirements for post retirement benefits for the next several years. However, the funding requirements are manageable and should not have a material effect on our cash flows.

The credit ratings accorded to our securities by S&P and DBRS are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that the foregoing ratings will remain in effect for any given period of time or that the ratings will not be withdrawn or revised entirely by S&P or DBRS at any time in the future if, in the judgment of either or both, circumstances so warrant.

MARKET FOR SECURITIES

Our common shares are wholly owned by Aliant and are not publicly traded. Our debentures, MTNs and first mortgage bonds were publicly issued and trade in the public bond market.

DIRECTORS AND OFFICERS

NAME, ADDRESS, OCCUPATION AND SECURITY HOLDING

Our directors and executive officers do not own any of our shares as we are 100% owned by Aliant. On February 21, 2005, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control or direction over approximately 113,144 shares of Aliant Inc. representing about 0.09% of the outstanding shares.

Directors

Our directors are listed in the accompanying table. All directors hold office for one term at a time. The term of office is the time period between the annual meetings of shareholders of Aliant. We have the following committees: 1) Audit; 2) Corporate governance; 3) Human resources and compensation; 4) Investment; 5) Defined benefit pension investment; and 6) Defined contribution pension investment. We do not have an executive committee of the board of directors. The name, board position, committee membership, province or state of residence and principal occupation for each of our directors as at March 22, 2005, appears below:

Name, position and committees	Principal Occupation	Province or State and Country	Director since
Miller H. Ayre, C.M. ^{2,3} Corporate Governance Committee Chair	Publisher The Telegram (Newspapers)	NL Canada	September 29, 1999
J. Charles Caty ^{3,4} Human Resources & Compensation Committee Chair	Corporate Director	ON Canada	September 29, 1999
Robert P. Dexter, O.C. ^{1,2,4} Investment Committee Chair	Chairman and Chief Executive Officer Maritime Travel Inc.	NS Canada	September 29, 1999
Jay Forbes, F.C.A.	President and Chief Executive Officer Alliant Inc.	NB Canada	April 19, 2002
Lawson Hunter ⁴	Executive Vice President BCE Inc. (Telecommunications)	ON Canada	June 28, 2004
R. Terry Mosey ^{5, 6}	Executive Vice President Bell Canada (Telecommunications)	ON Canada	December 15, 2003
Dr. Margot Northey ³	Corporate Director	BC Canada	April 20, 2001
Edward Reevey, F.C.A. ^{1,5,6} Audit Committee Chair, Defined Benefit Pension Committee Chair & Defined Contribution Pension Committee Chair	Chairman and Chief Executive Officer, Addee Developments Limited and Eedda Capital Inc. (Private holding corporations)	NB Canada	September 29, 1999
Karen Sheriff ²	President - Small and Medium Business Bell Canada Inc. (Telecommunications)	ON Canada	June 28, 2004
Catherine Tait ^{1,2}	President Duopoly, Inc. (Film and Television)	NY United States	April 20, 2001
Stephen G. Wetmore, C.A. ³	Group President - National Markets, Bell Canada and Executive Vice President, BCE Inc. (Telecommunications)	ON Canada	September 29, 1999
Charles W. White Q.C. ^{1,2,3,4,5,6} Chairman of the Board	Lawyer White Ottenheimer & Baker (Law firm)	NL Canada	September 29, 1999
Victor L. Young, O.C. ^{1,2}	Corporate Director	NL Canada	April 19, 2002

With the exception of the following individuals, all of the directors have been employed in the designated principal occupation for the preceding five years or have been engaged in different executive functions with their current employer or with one of its affiliates:

Dr. Northey was Dean of Queen's University School of Business until her retirement in June of 2002.

Mr. Hunter is executive vice president of BCE. Prior to this, he was a partner with the law firm Stikeman Elliott.

Ms. Sheriff is president, small and medium business with Bell Canada. She joined Bell Canada in May of 1999 as senior vice-president of product management and development and then took the position of chief marketing officer. Prior to joining Bell Canada, Ms. Sheriff was responsible for corporate marketing and branding at Ameritech Inc.

Ms. Tait is currently president of Duopoly, Inc., but was previously a communications and entertainment consultant and president and chief operating officer of Salter Street Films.

Mr. Young was chairman and chief executive officer of Fishery Products International Ltd. from November 1984 to May 2001.

For background information on Mr. Forbes please refer to the "Officers" section below.

Officers

The name, province of residence and principal occupation for each of our executive officers as at March 22, 2005, are as follows:

Name	Office of Aliant Telecom presently held	Province or State and Country
Jay Forbes, F.C.A.	President and Chief Executive Officer and Acting Chief Financial Officer	NB Canada
Frank Fagan	Executive Vice President and Chief Operating Officer	NL Canada
G. Reid Parker	Vice President and Treasurer	NB Canada
Frederick P. Crooks, Q.C.	Senior Vice President, General Counsel and Corporate Secretary	NS Canada
David Rathbun	Senior Vice President Corporate and Chief Human Resources Officer	NS Canada
Gary Lund	Chief Technology Officer	NB Canada
Ivan Toner	Chief Information Officer	NS Canada
Paul Kent	Senior Vice President Aliant Enterprise and Business Solutions and Chief Operating Officer xwave	NS Canada
Helena Cain	Vice President Sales and Client Management	NB Canada
Heather Tulk	Vice President Broadband and Marketing	NS Canada
Charles Hartlen	Vice President Aliant Mobility and Vice President Customer Service	NS Canada
Ronald Waite	Vice President Sales, SMB, Wholesale and Export	PEI Canada
Evan Kipnis	Assistant Corporate Secretary	NL Canada

The position of executive vice president and chief financial officer is vacant as at March 1, 2005. During 2004, this position was held by Barry Kydd, F.C.A. Mr. Kydd left Aliant to pursue other interests on February 10, 2005. During the process of recruiting a new chief financial officer, Jay Forbes will oversee the financial operations of Aliant. Prior to his appointment as president and chief executive officer, Mr. Forbes served as chief financial officer of the organization.

All of the officers of Aliant Telecom have held their present position or other executive positions with Aliant or one or more affiliated companies for the preceding five years with the exception of the following individuals:

Jay Forbes was appointed our president and chief executive officer in March 2002. He joined us as executive vice president and chief financial officer of Aliant and Aliant Telecom on February 19, 2001 from his role as executive vice president, corporate resources and chief financial officer of Oxford Properties Group Inc. Prior to this, he was chief financial officer and senior vice president of Emera Inc.

Frederick P. Crooks joined Aliant and Aliant Telecom in the role of senior vice president, general counsel and corporate secretary in October 2003, prior to which he was a partner with the law firm Cox Hanson O'Reilly Matheson in Halifax since 1985.

Prior to his appointment as an Aliant Telecom officer on January 26, 2005, Mr. Kent was Senior Vice President Aliant Inc. and Chief Operating Officer xwave as of October 6, 2003. Before joining Aliant, Mr. Kent was senior vice-president and managing director for the Strategic Consulting Unit of Fujitsu. He has also held other senior positions at Fujitsu and IT roles in several government organizations.

LEGAL PROCEEDINGS

This section describes important legal proceedings that you should be aware of. While we cannot predict the final outcome of the claims and litigation described below or any other pending claims and litigation at March 22, 2005, management believes that the resolution of these claims and litigation will not have a material and negative effect on our consolidated financial position or results of operations. None of the claims and litigation described below currently seek from us payment of damages in an amount exceeding the threshold requiring disclosure in this AIF pursuant to Canadian securities laws.

Action by former New Brunswick Employees

On April 14, 2000, an action was commenced in the New Brunswick Court of Queens Bench against NBTel Inc. (now Aliant Telecom) by 132 former employees who took early retirement under a 1998 early retirement incentive program. The former employees seek unquantified general damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under a 1999 early retirement incentive program. Pleadings are closed, Affidavits of Documents have been prepared and Discovery of the Plaintiffs is complete. Discovery of Aliant Telecom's witnesses has not been completed. While the outcome of this matter is not determinable at this time, we believe we have strong defences and are vigorously contesting the claim.

Action by Exigen, Ltd.

On March 25, 2004, an action was commenced in the United States District Court, Northern District of California, against Aliant Telecom by Exigen Ltd. ("Exigen"). The action was subsequently amended in June 2004 to add Aliant Inc. as a defendant. The action stems from the sale of Connectivity Contact Centre Solutions Inc. to Exigen, the termination of certain commercial agreements and claims of interference with Exigen's commercial relations. In its formal Complaint, Exigen seeks US\$30 million in specified damages and other damages to be presented. A preliminary issue concerns whether Canada is the proper place to bring the action instead of California. Accordingly, we have started an action in New Brunswick against Exigen and its Canadian operating subsidiary seeking adjudication of many of these issues. Although it is not currently possible to determine the outcome of this matter, we believe we have strong defences and have accrued what is deemed by management to be adequate reserves.

Potential Saskatchewan Class Action

On August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including Aliant Telecom. The suit is brought by several alleged customers or former customers of the defendants, who seek court permission to proceed by way of class action under the Saskatchewan Class Actions Act. The claim relates to certain system access fees that the defendants charge to their customers. In the claim, the plaintiffs allege, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees, and seek unspecified damages, including punitive and exemplary damages. While the certification hearing has been scheduled for May 2005, it is not currently known whether the proceeding will actually be certified as a class action. While the plaintiffs' counsel have indicated an intent to litigate this matter in Saskatchewan, during the fourth quarter of 2004 they also filed identical lawsuits in several other Provinces. While we feel we have strong defences to this claim, the outcome of this matter is not determinable at this time.

Canada Life

On October 19, 2004, Aliant Telecom was added as a third party in a lawsuit brought by the Canada Life Assurance Company ("Canada Life") in the Supreme Court of Nova Scotia against the Province of Nova Scotia. The claim arises from a 1999 Government Request for Proposal in which an Aliant Telecom predecessor corporation, Maritime Tel & Tel Limited, assisted the Province of Nova Scotia in setting up a wide area network system, and in obtaining lease financing for the related equipment acquisition. Upon completion of the project the original equipment lessor assigned its lease to Canada Life. The lease payments charged to the Province by Canada Life have been higher than those in the original quote, but the Province has paid the lower quoted rates. In July 2004, Canada Life sued the Province seeking additional payment based on the higher lease rate, and sought payment of arrears to April 2004 of approximately \$0.8 million, and accelerated lease payments for the unexpired lease terms of approximately \$23.2 million. The Province has made a third party claim against Aliant Telecom alleging that it acted as consultant to the Province and should provide indemnification. While the outcome of this matter is not determinable at this time, we feel we have strong defences to this claim.

TRANSFER AGENTS AND REGISTRARS

Classes	Medium Term Notes	Debentures	First Mortgage Bonds
Series:	Aliant Telecom: 6.65% Series 2 6.70% Series 3 6.80% Series 4 5.35% Series 5	Maritime Tel & Tel: 8.3% Series 2 9.7% Series 4 9.05% Series 5 NB Tel: 11.125% Series AA	Island Telecom: 10.60% Series T 11.15% Series U 9.77% Series V 8.76% Series W NewTel Communications: 10.75% Series T 11.40% Series V Maritime Tel & Tel: 10.45% Series AD
Transfer Agent and Registrar: Register Location(s): Transfer Location(s):	CIBC Mellon Trust Company Halifax, NS Toronto ON	Computershare Trust Company of Canada Halifax, NS Halifax, NS	Computershare Trust Company of Canada Halifax, NS Halifax, NS

MATERIAL CONTRACTS

Union Contracts

The negotiation process between Aliant Telecom and the Council of Atlantic Telecommunication Unions, representing approximately 66% of Aliant Telecom's employees, resulted in a new Collective Agreement being reached with an effective date of January 1, 2002, and an expiry date of December 31, 2007. The agreement was reached with the assistance of the Federal Mediation Services after a 147 day strike, with employees returning to work on September 20, 2004. The new Collective Agreement incorporates annual increases in base wages, wage alignment, pension enhancements and increased flexibility in workforce management in areas such as contracting out, workplace change and workforce reduction.

ADDITIONAL INFORMATION

Please see Schedule 1 of this AIF for "Additional Disclosure" required under Form 51-102F2, Item 18.

Additional financial information is available in our financial statements and Management's Discussion and Analysis for the year ended December 31, 2004.

Additional information relating to our company, the AIF as well as our annual and quarterly reports, news releases and other continuous disclosure documents, are filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at www.sedar.com.

FORWARD LOOKING STATEMENTS

This AIF contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate 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" 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 which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve our strategies and plans; general economic conditions; changes in pension valuations; changing technology; increased competition; and changing regulatory conditions or requirements. Some of these factors are largely beyond our control. Should any factor impact us 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 might 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 us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any forward-looking statements. Further, we disclaim 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.

SCHEDULE 1

Additional Disclosure required under Form 51-102F2 Item 18 - “Additional Disclosure for Companies Not Sending Information Circulars”

Additional disclosure

This additional disclosure is provided in accordance with Form 51-102F2, Item 18. Any disclosure required under Form 51-102F2, Item 18 which is not contained in this Schedule is otherwise provided in the main portion of this AIF. Any terms defined in the main portion of this AIF are adopted in this Schedule.

Voting securities and principal holders thereof

As of March 20, 2005, there were 10,667,385 outstanding common shares of the Corporation each entitled to one vote per share at meetings of common shareholders. To the knowledge of the directors and officers of the Corporation, the only person or corporation beneficially owning, directly or indirectly, or exercising control or direction over common shares of the Corporation is its parent company, Aliant, the beneficial owner of all the common shares.

Directors

The articles of the Corporation provide for a board of directors consisting of such number of persons, not less than one (1) and no more than nineteen (19), as may be determined by the directors from time to time. The board of directors currently consists of thirteen (13) directors, each of whom hold office until the close of the next annual meeting of shareholders barring death or resignation. As of March 22, 2005, the thirteen (13) persons listed in the “Directors and Officers” section in the main portion of this AIF were directors of the Corporation.

Our board of director committees comprise an audit committee, an investment committee, a human resources and compensation committee, a defined benefit pension investment committee, a defined contribution pension investment committee and a corporate governance committee. We do not have an executive committee of our board of directors.

The Corporation's board and board committees are the same as the board and board committees of its parent, Aliant.

Please see the “Directors and Officers” section of the main portion of this AIF for the name, board position, committee membership, province or state and country of residency, principal occupation and date of directorship appointment for each director of the Corporation.

Composition of the human resources and compensation committee and report on executive compensation

The human resources and compensation committee (the “committee”) of the board administers the Aliant executive compensation program, which applies equally to all named executive officers of Aliant and Aliant Telecom. The committee was formed on September 20, 1999 to establish: (1) a plan of continuity for executives and other key employees; (2) a broad plan of executive compensation that

will attract, retain and motivate executive management and other key employees; and (3) a process for the annual performance review of executive management to allow recommendations for compensation. The committee consists of the following five directors: Charles Caty (chair), Miller Ayre, Dr. Margot Northey, Stephen Wetmore and Charles White.

Executive compensation components

The compensation plan for the Aliant Telecom executives is determined mainly with reference to compensation for similar executive positions at comparable Canadian corporations. Compensation for the executives, including the chief executive officer, consists primarily of four main components:

- annual base salary;
- short-term incentive compensation - the target short-term incentive award ranges from 40% to 75% of the executive's annual base salary;
- mid-term incentive compensation - the target mid-term incentive award ranges from 25% of the executive's annual base salary to 85% of the executive's annual base salary; and
- long-term incentive compensation - the target long-term incentive award ranges from 25% to 85% of the executive's annual base salary.

The use of short-term, mid-term and long-term incentive compensation places a significant portion of the executive's total compensation at risk and rewards the executives for individual and corporate performance and the creation of sustained shareholder value. For instance, 70% of the chief executive officer's potential compensation is at risk.

Annual base salary

Salaries are determined by evaluating the responsibilities of each executive's position as well as the executive's experience, knowledge and performance. Executive salaries are reviewed annually and adjusted, as appropriate based on individual performance, capabilities, responsibilities and competitive market data. The compensation for executives is targeted to the median range of the Canadian corporations studied by the committee.

Compensation at risk

Short-term incentive compensation

The short-term incentive compensation plan provides an opportunity for executives to receive a competitive cash reward for the achievement of specific financial and non-financial targets. In 2003, a Balanced Scorecard approach was introduced to define short-term incentive compensation awards. The Balanced Scorecard promotes a closer alignment of the measures and targets used to assess employee performance to Aliant's and Aliant Telecom's strategic objectives. The Balanced Scorecard provides a structured framework for converting strategy through the use of performance measures in four perspectives; financial, customer, internal process and employee learning and growth. Performance targets for each executive reflect the individual's area of responsibility and ability to influence the corporate results through these four perspectives. No incentive compensation is payable where the corporate objectives are not achieved or where individual performance is not satisfactory.

Mid-term incentive compensation

The mid-term incentive compensation program aligns and rewards executive's performance with the growth and creation of shareholder value. Our program consists of a performance share unit plan ("PSUP").

Performance share unit plan

In 2003, Aliant established the PSUP for selected officers and senior management of Aliant and its subsidiaries to better align the long-term incentive compensation payout with total shareholder return. Aliant modified its long-term compensation plan, the value of which remained unchanged, by reducing the number of stock options by 50% and replacing this with performance share units. Aliant also implemented share ownership guidelines.

Participants in the PSUP are required, over a period of five years, to hold a prescribed value of share units or Aliant common shares reflecting their position and responsibilities. The table below outlines the ownership guidelines for the named executive officers. Under the PSUP, share units are granted by the human resources and compensation committee and each share unit represents the right to receive, for each vested share unit, one Aliant common share acquired in the secondary market or cash payment equal to the fair market value, subject to adjustment as indicated below depending on the achievement of performance criteria. In 2004, 45,902 share units were granted. Share units are subject to both time-based and performance-based vesting. Share units granted in 2004 do not vest until November 30, 2006, subject to performance conditions. Grantees are also entitled to receive additional share units based on dividends paid on Aliant's common shares, with each grantee receiving additional share units equal to the number of share units held by the grantee multiplied by the dividend paid on an Aliant common share, divided by the fair market value of a common share on the dividend payment date. An additional 4,291 share units were credited based on this calculation in 2004. At the time of vesting, the number of Aliant shares (or equivalent value in cash) to which an executive officer may be entitled can range from nothing to twice the original number of share units in the grant, depending upon actual performance against the predetermined performance conditions. The performance conditions consist of a comparison of Aliant's total shareholder return (share price appreciation plus reinvestment for dividends) compared to the total shareholder return for comparative groups of companies. If Aliant experiences negative total shareholder return, payouts are reduced from what they otherwise would be, based on the comparison of shareholder returns.

Share or share unit ownership guidelines table

<i>Ownership guidelines</i>	<i>\$ value</i>
Jay Forbes	1,000,000
Frank Fagan	500,000
Barry Kydd	500,000
David Rathbun	250,000
Wendy Paquette	250,000

Long-term incentive compensation

The long-term incentive compensation program aligns employees' performance with the long-term growth in shareholder value. Aliant's program consists of a stock option plan ("SOP").

Stock option plan

Selected officers and senior management are eligible under the SOP. Share options are granted by the board based upon overall corporate performance and performance of the individual. Under the SOP,

the board designates the key individuals to be granted options for the purchase of Aliant common shares and the number of options to be granted. The option price is, unless otherwise determined by Aliant, the closing price of a trade of at least a board lot of Aliant common shares on the Toronto Stock Exchange (the "TSX") on the trading day preceding the date of the grant. Each option granted is for a period of 10 years and unless specified otherwise, the right to exercise options occurs in one-third increments on the first, second and third anniversary dates from the date of grant. The number of shares, which may be issued under options issued and outstanding pursuant to the SOP is limited to 6,500,000. However, the number of shares to be issued pursuant to the SOP combined with the options outstanding under any other employee-related plan or granted to any one person shall not exceed 5% of Aliant's issued and outstanding shares. In granting options, Aliant takes into account the number of shares available for issuance pursuant to the SOP. However, Aliant does not, on an individual basis, take into account the amounts and terms of outstanding options when determining whether and how many new option grants would be made to an employee.

Chief executive officer compensation

The components of total compensation for the chief executive officer are the same as those which apply to other senior executives of Aliant and Aliant Telecom, namely, base salary, short-term incentive compensation, mid-term incentive compensation, long-term incentive compensation and benefits. Significant emphasis is placed on compensation that is at risk. For 2004, the pay mix is approximately 30% base salary, 20% short-term incentive compensation and 50% mid-term and long-term incentive compensation.

The human resources and compensation committee reviews and recommends to the board all base salary changes, short term incentive compensation, mid-term and long term incentive grants for the president and chief executive officer, and the members of his executive team.

Individual performance multipliers

To determine the actual awards payable under the short-term, mid-term and long-term incentive compensation components, corporate performance is measured and an individual performance multiplier is applied. The individual performance multiplier for the short-term incentive component ranges from 0% to 150%. The individual performance multiplier for the mid-term and long-term incentive compensation grants are 0%, 80%, 100% and 120%.

Report presented by the human resources and compensation committee.

Charles Caty (chair)
Miller Ayre
Dr. Margot Northey
Stephen Wetmore
Charles White

Compensation of officers

The summary compensation table below sets forth total compensation paid to Aliant Telecom's named executive officers for 2002, 2003 and 2004.

Summary compensation table

Name and Principal position ¹	Year	Annual compensation			Long-term compensation at risk ⁴	All other compensation (\$)
		Salary (\$)	Short-term incentive compensation ² (\$)	Other annual compensation ³ (\$)	Aliant common shares under options granted ⁵	
Jay Forbes	2004	546,096	342,975	0	69,399	114,610 ⁸
President and chief executive officer	2003	524,615	600,000	0	50,095	52,462 ⁸
	2002	451,308	0	0	65,760	53,506 ⁸
Frank Fagan	2004	397,885	163,625	0	29,159	25,000 ⁷
Executive vice- president and chief operating officer	2003	365,192	277,500	0	22,901	336,911 ⁷
	2002	264,493	0	0	12,000	385,000 ⁷
Barry Kydd	2004	378,615	158,525	58,883 ⁶	28,304	64,962 ⁸
Executive vice- president & chief financial officer	2003	358,981	271,000	78,496 ⁶	21,310	35,898 ⁸
	2002	148,173	0	0	20,000	14,917 ⁸
David Rathbun	2004	270,923	90,780	0	10,108	34,793 ⁸
senior vice- president, corporate and chief human resources officer	2003	258,269	164,000	0	7,952	20,662 ⁸
	2002	226,145	0	0	12,000	10,999 ⁸
Wendy Paquette	2004	270,923	90,780	0	10,108	0
senior vice- president, customer service	2003	258,269	173,000	0	7,952	0
	2002	244,691	29,363	0	12,000	0

and operations

1. Mr. Forbes joined Aliant Telecom as executive vice-president and chief financial officer in February 2001 and was appointed to the above noted office in March 2002. Mr. Fagan was president wireless services, until his appointment as executive vice-president and chief operating officer in October 2002. Mr. Kydd joined Aliant Telecom as executive vice-president and chief financial officer in July 2002 and resigned on February 10, 2005. Mr. Rathbun was appointed senior vice-president corporate and chief human resources officer in July 2002, prior to which he was chief human resources officer. Ms. Paquette was president consumer services, until her appointment as senior vice-president customer service and operations in October 2002.
2. All short-term incentive compensation shown is in respect of the results for the year earned. In previous years, short-term incentive compensation was reported for the year in which payment was received. Therefore, previous information circulars will state different amounts based on the year received. See section titled "Short-term incentive compensation".
3. Other benefits not disclosed do not exceed the lesser of \$50,000 or 10% of the total of the annual salary and short-term incentive compensation for any of the named executive officers for the reporting period.
4. See section titled "Long-term incentive compensation".
5. See section titled "Stock option plan".
6. Mr. Kydd was reimbursed for certain costs associated with his relocation.
7. Mr. Fagan received special retention payments, totaling \$25,000 in 2004, \$336,911 in 2003 and \$385,000 in 2002, to remain with Aliant.
8. Amounts include amounts contributed or accrued, excluding notional investment income thereon, pursuant to the executive defined contribution plans. See section titled "Retirement plans".

Termination of employment, change in responsibilities and employment contracts

Under Mr. Forbes's employment agreement, should he be terminated without cause, he would be entitled to the equivalent of 30 months cash compensation, and all outstanding stock options and share units would be considered fully vested. Under employment agreements with Mr. Kydd, Mr. Rathbun and Ms. Paquette, should they be terminated without cause, they would be entitled to the equivalent of 24 months cash compensation, and all of their outstanding stock options and share units would be considered fully vested. Mr. Fagan has no employment agreement.

Long-term incentive compensation – awards in most recently completed financial year

Option grants during the most recently completed financial year

Name	Common shares under options granted ¹	Per cent of total options granted to employees in fiscal year	Exercise base price (\$/common security) ²	Market value of common shares underlying options on the date of grant (\$/security)	Expiration date of grant
Jay Forbes	69,399	16.0%	32.39	33.52	January 29, 2014
Frank Fagan	29,159	6.7%	32.39	33.52	January 29, 2014
Barry Kydd	28,304	6.5%	32.39	33.52	January 29, 2014
David Rathbun	10,108	2.3%	32.39	33.52	January 29, 2014
Wendy Paquette	10,108	2.3%	32.39	33.52	January 29, 2014

1. Each option granted under the SOP covers one common share of Aliant. The SOP is described in the section titled "Composition of the human resources and compensation committee and report on executive compensation".
2. The exercise price of the stock options outlined in this table is equal to the average of the closing price of at least a board lot of Aliant common shares for the five trading days preceding the grant.

Aggregated option exercises during the most recently completed financial year and financial year-end option values

Name	Securities acquired on exercise	Aggregated value on exercise ¹	Unexercised options exercisable /unexercisable	Value of unexercised in-the-money options at year-end exercisable /unexercisable ¹
	(#)	(\$)	(#)	(\$)
Jay Forbes	0	0	99,299/124,716	16,685/33,731
Frank Fagan	0	0	84,884/48,426	246,868/15,420
Barry Kydd	0	0	20,437/49,177	7,174/14,349
David Rathbun	0	0	56,807/19,409	137,783/5,354
Wendy Paquette	10,670	125,725	66,403/19,409	137,783/5,354

1. Based on \$27.80 per Aliant common share, which was the closing price on the Toronto Stock Exchange on December 31, 2004.

Performance share unit awards during the most recently completed financial year

Name	Performance share units granted ¹	Performance period
Jay Forbes	16,797	November 30, 2006
Frank Fagan	7,058	November 30, 2006
Barry Kydd	6,851	November 30, 2006
David Rathbun	2,447	November 30, 2006
Wendy Paquette	2,447	November 30, 2006

1. Amounts represent the number of share units granted. These share units are subject to both time-based and performance-based vesting. The number of Aliant shares (or the equivalent in cash) to which an executive officer may be entitled at the time of vesting can range from nothing to twice the original number of share units in the grant, depending upon actual performance against the predetermined performance conditions. The performance conditions consist of a comparison of Aliant's total shareholder return (share price appreciation plus reinvestment for dividends) compared to the total shareholder return for comparative groups of companies. If Aliant experiences negative total shareholder return, payouts are reduced. See section titled "Performance share unit plan".

Retirement plans

The amounts disclosed below as the approximate values of retirement plan obligations accrued as of December 31, 2004, the costs incurred during 2004 and the amounts payable upon retirement of the named executives are all based on assumptions and contractual entitlements, which may change over time. The major assumptions used in making these estimates are consistent with those used to value all of our post-employment benefit obligations and are disclosed in note 6 to our consolidated financial statements for the year ended December 31, 2004.

Jay Forbes and Barry Kydd

Mr. Forbes became a member of Aliant's executive retirement plan as of his date of hire, February 19, 2001. Mr. Kydd became a member of the same plan on his date of hire, July 22, 2002. The plan is a non-contributory defined contribution retirement plan with 10% of pensionable earnings contributed to a registered retirement savings plan for contributions up to personal income tax limits and to a notional account for contributions above the income tax limits. Pensionable earnings include salary and short-term incentive payments. The maximum contribution that could be made to registered retirement savings plans for 2004 was \$15,500. Contributions due under the executive retirement plan in excess of this income tax limit have been accrued and are tracked in notional accounts for each executive. The total amount accrued as of December 31, 2004 for payment to Mr. Forbes upon his retirement is approximately \$241,000, and for Mr. Kydd is approximately \$92,000. The total cost of retirement plan contributions, including notional investment income, attributable to 2004 service for Mr. Forbes was approximately \$131,000 and for Mr. Kydd was approximately \$68,000.

David Rathbun

Mr. Rathbun participates in the Aliant Telecom Pension Plan (Nova Scotia) defined contribution provision and the supplementary executive pension plan. The defined contribution pension plan, as it applies to Mr. Rathbun, is a defined contribution plan under which he contributes 2% of pensionable earnings and Aliant contributes 6%. The combined contributions are made to the registered pension plan up to the income tax limit and to a notional account for contributions above that limit.

The supplementary executive pension plan provides an annual pension per credited year of service of 1.5% times the best average 36 consecutive months of pensionable earnings (to a maximum of 75% of

such earnings). Pensionable earnings include salary, bonuses and other benefits received by the named executive officer. At age 65, the pension benefit is reduced to reflect benefits from the Canada Pension Plan. At December 31, 2004, Mr. Rathbun had 7.1 credited years of service. The plan provides a survivor pension equal to 66.67% of the executive's pension benefit. The amount accrued under the supplementary pension plan and notional accounts as of December 31, 2004 related to Mr. Rathbun is approximately \$310,000. The total cost of retirement plans attributable to Mr. Rathbun's 2004 service was approximately \$45,000, including notional investment income.

Mr. Rathbun is also entitled to a pension enhancement. See footnote 8 for the table titled "Summary compensation table".

Frank Fagan and Wendy Paquette

The following table illustrates the estimated annual pension benefits payable to Mr. Fagan and Ms. Paquette, who are members of a defined benefit pension plan, at retirement based on specified compensation levels and credited years of service:

Pension plan table (in dollars)

Remuneration	Credited years of service			
	10	20	30	40 (maximum)
200,000	37,975	75,950	113,925	150,000
300,000	57,875	115,950	173,925	225,000
400,000	77,975	155,950	233,925	300,000
500,000	97,975	195,950	293,925	375,000
600,000	117,975	235,950	353,925	450,000
700,000	137,975	275,950	413,925	525,000
800,000	157,975	315,950	473,925	600,000
900,000	177,975	355,950	533,925	675,000

Frank Fagan

Mr. Fagan participates in the Aliant Telecom Defined Benefit Pension Plan (Newfoundland and Labrador) and the supplementary executive retirement plan. Collectively, the plans provide an annual pension per credited year of service of 1.5% times the best average for 36 consecutive months of pensionable earnings (to a maximum of 70% of such earnings). Pensionable earnings include salary, bonuses and other benefits received by the named executive officer. At age 65, the pension benefit is reduced to reflect benefits payable from the Canada Pension Plan. The plan provides for an additional half-year service for each year of service as a senior officer. At December 31, 2004, Mr. Fagan had 55.5 credited years of service. The plans provide a survivor pension equal to 66.67% of the named executive officer's pension benefit. At retirement, the supplemental plan provides for a lump-sum payment equal to 12 months of compensation. The total amount accrued under the registered pension plan and the supplementary pension plan as of December 31, 2004 related to Mr. Fagan is approximately \$7,117,000. The total cost of retirement plans attributable to Mr. Fagan's 2004 service was nil as he has reached the maximum percentage of earnings permitted under the pension plan.

Wendy Paquette

Ms. Paquette participates in the Aliant Telecom Pension Plan (Nova Scotia) and the supplementary executive retirement plan. Collectively, the plans provide an annual pension per credited year of service of 1.5% times the best average 36 consecutive months of pensionable earnings (to a maximum of 75% of such earnings). If Ms. Paquette retires at or after age 55, the pension rate is increased from

1.5% to 2.0%. At December 31, 2004, Ms. Paquette had 22.4 credited years of service. Pensionable earnings included salary, bonuses and other benefits received by the named executive officer. At age 65, the pension benefit is reduced to reflect benefits payable from the Canada Pension Plan. The pension benefits described above include any benefits payable as a result of the executive's participation in the defined contribution portion of the pension plan, to which the executive is required to contribute 2% of pensionable earnings. The plans provide a survivor pension equal to 66.67% of the named executive officer's pension benefit. At retirement, Ms. Paquette will receive 12 months of base salary. The total amount accrued under the registered pension plan and the supplementary pension plan as of December 31, 2004 related to Ms. Paquette is approximately \$2,068,000. The total cost of retirement plans attributable to Ms. Paquette's 2004 service was approximately \$129,000.

Performance graph

All of the issued and outstanding shares of the Corporation are beneficially held by Aliant and are not publicly traded. A performance graph is therefore not applicable.

Indebtedness of directors and senior officers

As of the end of the financial year 2004, neither the Corporation nor its subsidiaries have provided a guarantee, support agreement, letter of credit, or other similar arrangement or understanding with respect to the indebtedness of a director, executive officer, senior officer, proposed nominee for election as a director, or any associate of any such director, officer or proposed nominee.

No director, executive officer or senior officer of the Corporation or proposed nominee for election as a director of the Corporation or its subsidiaries or any person associated or affiliated with such directors, officers or proposed nominees for election as a director is indebted to the Corporation or its subsidiaries.

Remuneration of directors

The Corporation's directors are also directors of Aliant. These directors receive compensation from Aliant and do not receive separate compensation for their services as directors of Aliant Telecom.

Directors are compensated by Aliant on the basis of annual retainers and meeting fees. Directors who are employed by Aliant or its subsidiaries, BCE or Bell Canada do not receive such compensation. In the case of directors employed by BCE or Bell Canada compensation is paid to Bell Canada. Mr. Young is a member of the board of directors of BCE but is not an employee of BCE and therefore is eligible to receive compensation from Aliant. The annual retainer for each eligible director is \$35,000, all of which is deferred to the share unit plan for non-employee directors (the "share unit plan") and converted to share units. The share unit plan was designed and implemented solely for members of the board of directors who are not employees of Aliant or its subsidiaries, BCE or Bell Canada. Committee chairs receive an additional annual retainer of \$7,000, the chair of the audit committee receives an additional annual retainer of \$15,000 and committee members receive an additional annual retainer of \$3,000. The chair of each committee receives the committee member retainer in addition to the committee chair retainer. The meeting fee for each board and committee meeting is \$1,500. The chair of the board of directors is compensated on the basis of an annual retainer of \$200,000 with a minimum of \$100,000 deferred to the share unit plan. The chair does not receive meeting fees for board and committee meetings. Non-employee members of the board are also reimbursed for travel and other out of pocket expenses incurred as a result of attending board and committee meetings.

The share unit plan is intended to enhance our ability to attract and retain high-quality individuals to serve as members on the board and to promote a greater alignment of interests between non-employee members of the board and our shareholders. Eligible directors and the chair may elect to defer to the share unit plan any portion of their fees over and above the minimum deferred amounts of \$35,000 and \$100,000 for directors and the chair, respectively. At the end of each quarter, fees thus deferred are divided by the market value of an Aliant common share and converted to share units. Dividends on share units are credited to each director's share unit plan account in the form of additional share units. Upon termination of board service, the directors receive the cash equivalent value of the number of share units then recorded in the director's share unit plan account based on the market value of an Aliant common share at that time.

Share ownership requirements

The Corporation's directors are also directors of Aliant. Directors are required to own 3,000 Aliant common shares or 3,000 share units under the share unit plan or a combination of both within a reasonable period of time following their appointment. Directors who are employed by Aliant or its subsidiaries, BCE or Bell Canada do not receive compensation for their participation on the Aliant board. In the case of Directors employed by BCE or Bell Canada, compensation is paid to Bell Canada. Those employees are therefore not required to own shares of Aliant and do not participate in the share unit plan. For the threshold ownership requirements applicable to Mr. Forbes, who is an internal director, see table on ownership guidelines under "Composition of the human resources and compensation committee and report on executive compensation".

Directors' and officers' liability insurance

The directors and officers of Aliant and its subsidiaries benefit from a group directors and officers liability policy with limits of US\$200 million purchased through the BCE group insurance program for the protection of all directors and officers of BCE and subsidiary corporations against liability incurred by them in their capacity as directors and officers.

In 2004, the amount of premium paid by the Aliant group for participatory coverage in respect of directors and officers was US\$418,230. Where we grant indemnification to the directors and officers, the deductible is US\$1 million for the Corporation. When the Corporation does not indemnify the directors and officers, there is no deductible applicable to payments made on their behalf.

Interest of insiders in material transactions

We are not aware that any of the directors, officers, nominees for election as directors, other insiders of the Corporation or any persons associated or otherwise related to any of them has had an interest in any material transaction carried out since the beginning of the Corporation's last completed fiscal year and which has materially affected or is likely to materially affect the Corporation.

Auditors of the Corporation

The auditors of the Corporation are Ernst and Young, who were first appointed by the Corporation on September 29, 1999.