Simple is better

First quarter report 2004

Earnings up 9.1 per cent: Wireless and Internet drive growth

I am pleased to share with you the progress we have made during the first quarter of 2004. This period was marked by several significant accomplishments as we executed on our strategy and continued to move the business forward.

Earnings per share from continuing operations up 16.0 per cent

Consolidated revenues in the first quarter of 2004 were $504.4 million, an increase of 0.7 per cent over the same period last year. Revenues were driven primarily by strong wireless and Internet results, with year-over-year revenue growth of 18.3 per cent and 14.2 per cent, respectively. Net income applicable to common shares from continuing operations was $38.3 million, up 9.1 per cent from the same period last year. Earnings per share from continuing operations were $0.29, up 16.0 per cent, due to growth in net income and the impact of our share buyback programs.

Wireless and Internet growth offsets decline in wireline business

In wireless, our higher revenue was driven by solid customer growth and increased usage. Compared to a year ago, we have an additional 55,000 wireless customers. Postpaid net activations increased by 40 per cent in the first quarter, compared with the same period last year, and customer usage was 10 per cent higher, driving our average revenue per postpaid customer up 8 per cent to $50.84 per month.

On the Internet side of the business, we added more than 9,000 customers this quarter alone. The expansion of our broadband network and increased penetration within our existing coverage areas drove our number of high-speed customers up 31 per cent. Strong performance in wireless and Internet served to more than offset declines in our wireline business, where increased competition in long distance resulted in lower revenues.

Competition serves Atlantic Canadians best

Atlantic Canadians are increasingly choosing services such as wireless, e-mail, instant messaging and short text messaging to complement or replace traditional telecommunications services. This trend, coupled with the continued competitive and regulatory influences in our marketplace, has contributed to a 1.8 per cent decline in our residential customer base. Our local residential market is one of the most competitive in North America. As a result, on April 7, we filed an application with the CRTC for local forbearance in the areas where there is significant local residential competition. We asked the CRTC to enable us to compete more effectively in these areas by providing customers with more flexible packages, by being able to react to market conditions in a more timely fashion, and by bringing offers to market more quickly. While the regulator assesses our filing, we have asked for expedited relief on current win-back restrictions, promotions and service charges.

Operational excellence – a platform for future growth

Operational excellence is the foundation for effective and profitable growth. During the first quarter, we made great progress on several fronts:

- We reduced wireless post-paid churn from 1.54 per cent in the first quarter last year, to 1.19 per cent in the first quarter of this year;
- We took steps to trim ongoing costs. As a result, we recorded a $3 million charge related to severance costs. We expect a payback of less than a year;
- We saw the benefits of our 2003 restructuring efforts at xwave taking hold. The IT segment achieved a significant improvement in operating margins and made a positive contribution to our bottom line;
- We generated $157 million in cash from operations, before changes in working capital, a 27 per cent increase over last year;
- And finally, we continued to return cash to our shareholders. Through the repurchase of more than 600,000 shares under our normal course issuer bid, and through our common dividends, we delivered $55 million to shareholders during the quarter.

Capital investments focus on wireless and Internet

Capital investments in the quarter totaled $84.8 million, up from $70.6 million in the first quarter of 2003. We expanded our digital wireless service to reach 84 per cent of Atlantic Canada's population, up from 70 per cent in the first quarter of last year. We also improved coverage of our 1xRTT network. It now fully mirrors the coverage of our digital wireless network. And, we doubled its speed. We continued to expand our high-speed Internet coverage, passing 66 per cent of homes in Atlantic Canada by the end of the first quarter, up from 61 per cent at this time last year.

Dividends declared

On April 29, 2004, our board of directors declared a common share dividend of $0.275 per common share and a preferred share dividend of $0.340625 per preferred share, payable on June 30, 2004, to shareholders of record on June 15, 2004.

Customers are our first priority

Despite the advances we made during the quarter in our operations, we were not able to secure an appropriate collective agreement with our 4,300 unionized workers. On April 23, we presented an offer that we believe successfully balanced the needs of all stakeholders, at a time when the industry is rapidly evolving. Unfortunately, the offer was rejected without being presented to the union membership, and a labour disruption began on that day. We immediately implemented comprehensive business continuity plans and redeployed 1,800 of our 2,200 management employees into operational and customer service roles. Our objectives during this labour disruption are clear – to provide the highest possible level of service to our customers, while minimizing the ongoing impact to our operations.

In due course, the labour disruption will end. In the meantime, we are concentrating our efforts on maintaining customer service levels and on managing our costs and cash flow carefully. Our share buyback program continues, and we are focused on ensuring that Aliant remains a compelling investment for our shareholders over the long term.

Jay Forbes
President and chief executive officer
April 29, 2004

First quarter financial highlights

For the three months ended March 31

(millions of dollars except per share amounts)	**2004**	2003	% change
Consolidated revenues	**504.4**	500.9	0.7
Net income applicable to common shares from continuing operations	**38.3**	35.1	9.1
Earnings per share from continuing operations	**0.29**	0.25	16.0
Weighted average number of common shares outstanding *(millions)*	**133.4**	139.3	(4.2)

MD&A

This document has been prepared for the purpose of providing management's discussion and analysis (MD&A) of our financial condition and results of operations for the three months ended March 31, 2004, compared to the corresponding period in 2003. The MD&A should be read in conjunction with our unaudited interim consolidated financial statements and accompanying notes for the three months ended March 31, 2004, and with our MD&A contained in our 2003 annual report for the year ended December 31, 2003. This MD&A is based on financial statements prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). All amounts in this MD&A are in millions of Canadian dollars, except where otherwise noted.

Quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at www.aliant.ca. Additional information, including our annual information form and other continuous disclosure documents, have been filed electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) and are available online at www.sedar.com.

Throughout this MD&A, "we", "us", "our" and "Aliant" refer to Aliant Inc. or our Telecommunications and Information Technology segments.

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 our actual future experience. Reference is made to the "Risk and risk management" and "Forward-looking statements" sections for further discussion about the inherent risks and uncertainties surrounding future expectations. 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. Forward-looking statements in this MD&A describe our expectations on April 28, 2004, unless otherwise noted.

This MD&A is dated April 29, 2004, which is the date of filing in conjunction with our press release announcing our results for the first quarter of 2004. Disclosure contained in this document is current to that date, unless otherwise stated.

Reclassification of prior year results
Where indicated, prior year results have been reclassified to conform to the presentation adopted in the current year. Generally, these reclassifications were made to realign revenues as a result of new information.

ABOUT OUR BUSINESS

WHO WE ARE

Aliant is an information and telecommunications technology company based in Atlantic Canada. We operate through two segments, Telecommunications and Information Technology.

The Telecommunications segment provides a full range of voice and data communications services including local, long distance, cellular, Internet and other wireline and wireless services. Aliant Telecom Inc. ("Aliant Telecommunications") carries out the primary business of this segment, with complementary strengths in knowledge service applications offered by our wholly owned subsidiary, Innovatia Inc. ("Innovatia"), and in telephone directory advertising through an 87.1 per cent interest in Aliant ActiMedia (a joint venture).

The business of the Information Technology segment is carried out through Xwave Solutions Inc. ("xwave"). xwave delivers systems integration and software engineering, infrastructure services and product fulfillment to clients in several industry and geographic markets.

ADVANCING OUR STRATEGY IN 2004

During the first quarter of 2004, we made progress on our strategy to grow Aliant profitably through our focus on revenue growth, customer service, operational excellence and fostering employee learning and growth. Some of our significant accomplishments in each of the four underlying areas of our strategy are highlighted below.

Maximizing shareholder value

At Aliant, we strive to provide our shareholders with a stable and rewarding investment. By increasing our earnings per share and generating strong cash flow in the first quarter of 2004, we were able to return cash to our investors through the following activities:

- the payment of a quarterly dividend of $0.275 per common share to shareholders of record on March 15, 2004; and
- the purchase and cancellation of 616,116 shares under our current Normal Course Issuer Bid (NCIB) during the three months ended March 31, 2004.

Refer to the "Financial and capital management" section for a complete discussion of dividends and progress under our NCIB.

We have been able to return cash to our shareholders by generating profitable growth through investment and innovation. We have demonstrated this growth in our wireless and Internet business, generating customer growth over the first quarter of 2003 of 10.2 per cent and 7.6 per cent, respectively. This in turn has contributed to year-over-year operating revenue growth of 18.3 per cent in wireless revenues and 14.2 per cent in Internet revenues. This growth is in part the result of:

- Continued high-speed Internet expansion – We launched 22 new sites in the first quarter of 2004. Our high-speed Internet services now pass 66 per cent of the homes in Atlantic Canada, up from 61 per cent at March 31, 2003. Throughout 2004, we will continue to aggressively roll-out new sites, and partner with various government organizations and community groups to provide high-speed access to rural areas of Atlantic Canada with initiatives such as the Broadband Rural and Northern Development (BRAND) program.
- Continued expansion of the digital wireless network – During the first quarter of 2004, we completed 21 new digital sites. As a result, approximately 84 per cent of Atlantic Canada's population had access to our digital wireless network as at March 31, 2004, up from 70 per cent at March 31, 2003. Throughout 2004, we plan to invest a total of $26.0 million to further expand our digital wireless network. This will bring digital wireless to approximately 90 per cent of Atlantic Canadians.
- Improved coverage and data speed of one times radio transmission technology (1xRTT) – We completed our wireless 1xRTT data network expansion to mirror our digital coverage. In addition, we doubled the speed on our 1xRTT network giving our customers speeds of up to 153 kilobits per second. As we expand our digital wireless voice network, we will continue to overlay our 1xRTT data network to ensure the most expansive coverage for our customers.

In addition, we have invested in new products and services to position us for continued growth in 2004 and beyond.

- Launched ultra high-speed Internet service – Designed with the advanced Internet user in mind, ultra high-speed provides customers with download speeds up to 3.0 megabits per second, the fastest dedicated connection speed in Atlantic Canada. In addition, ultra high-speed includes free access to Music on my PC™ and the choice of one of our other enhanced services. Ultra high-speed is available to 85 per cent of our current high-speed service area and will grow as high-speed coverage grows.
- Launched Wireless Fidelity (Wi-Fi) service – In February 2004, we began a six-month service trial providing Wi-Fi service in five key high-traffic areas throughout Atlantic Canada, including three international airports. This service provides business customers and travelers convenient access to the Internet, e-mail and corporate networks without the need for a physical connection. During the trials,

free unlimited access is available to all Internet customers with a wireless Internet-enabled laptop, within a 50 to 100 metre range of the designated hot spot at each of the trial locations.
- Launched an Automatic Vehicle Location (AVL) service – Our AVL solution provides customers with the ability to track the location and monitor the activity of each vehicle in their fleet. This solution can provide productivity savings, more efficient utilization of the vehicle fleet, the ability to develop reports on vehicle utilization and maintenance, as well as enhanced employee safety.
- Launched Voice over Internet Protocol (VoIP) demonstration centres – We have continued our investment in the next generation infrastructure by opening VoIP demonstration centres in Saint John and Halifax, as well as a mobile demo that will be available across the Atlantic provinces. These centres will provide customers and employees with the opportunity to learn about this emerging technology.

We continue to focus on improving our Information Technology segment's performance by leveraging their core strengths in combination with the strengths of our Telecommunications segment. During the first quarter of 2004, the success of this combined effort resulted in the award of new business, such as a contract with Newfoundland and Labrador Hydro.

Our financial performance in the first quarter of 2004 indicates that we are well positioned to deliver on our 2004 outlook as evidenced by the following comparison:

	Full year 2004 outlook	**First quarter actual 2004 performance**
Operating revenues	Low single digit growth	0.7 per cent growth
Earnings per share	Low double digit growth	16.0 per cent growth
Cash from operations	Generate over $550.0 million in the year	$146.8 million
Capital investments	Similar to 2003 capital investment of $335.8 million for the year	$84.8 million

The operating revenue growth was driven by solid growth in the wireless and Internet service areas, partially offset by competition and current year impacts from previous year regulatory rulings on traditional local and long distance revenue sources. This growth combined with cost containment strategies, productivity initiatives and increased interest income, generated earnings per share growth of 16.0 per cent. In the first quarter, we also generated approximately 27 per cent of our anticipated annual cash from operations through solid earnings growth and effective management of working capital. We have expended approximately 25 per cent of our projected annual capital investments during the first quarter, reflecting a capital plan focused on generating additional revenue sources.

Everything begins with the customer

Our customers want their experience with us to be simple and enjoyable and we continuously strive to deliver on these expectations. In the first quarter of 2004, we rolled out our customer service transformation initiative, embarking upon the "road to simplicity". This is a multi-year effort to ensure our customers receive the highest possible quality of service in a positive and consistent manner each and every time they interact with us.

Simplifying internal processes

Delivering simplicity to our customers requires us to look internally to continually streamline our processes and systems. This allows us not only to better serve our customers but also to reduce our costs. In the first quarter of 2004, we achieved the following:
- Continued developing an industry leading cost structure – This includes loyalty and retention activities to reduce churn in addition to operational productivity initiatives to reduce servicing costs and improve efficiency. Productivity initiatives include continuing the consolidation of server platforms across the four Atlantic provinces that began in 2003, renegotiating vendor contracts, initiating a customer service transformation program and implementing a world-class sales program.

- Achieved additional productivity savings through our relationship with Bell Canada – We leveraged our relationship with Bell Canada to access their buying power for items such as materials and customer hardware. We have established operational agreements to improve technology and network planning with capital and expense savings to be realized through many such initiatives. Other shared initiatives include market research, contact centre integration, various customer contact workforce management tools and intellectual property.

Fostering employee learning and growth

We are continuing to build an environment that maximizes our employees' potential because we know our success depends on it. In particular, in the first quarter of 2004, we accomplished the following:

- Held a clerical training symposium – This three-day symposium brought together nearly 1,500 of our employees from across Atlantic Canada and was the first of its kind in North America. At this symposium, themed "It all starts with you", our contact centre employees had the opportunity to visit information and demonstration booths, attend presentations by our subject matter experts and interact with peers.
- Launched a new safety tool on-line – The accident prevention process system is the foundation of our safety program. This automated tool delivers a number of benefits, such as identifying the courses required by each employee based on a high/low risk role categorization, with management follow-up to ensure training is completed.

OPERATING RESULTS

The following is a summarized discussion of our consolidated operating results for the three months ended March 31, 2004, in comparison to the same period in the prior year.

OPERATING REVENUES

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Telecommunications			
Local	**188.3**	190.0	(0.9)
Long distance	**92.1**	100.8	(8.6)
Wireless	**86.5**	73.2	18.3
Internet	**29.0**	25.4	14.2
Other revenues	**36.7**	40.5	(9.4)
	432.6	429.9	0.6
Information Technology			
IT services	**54.0**	56.5	(4.4)
Fulfillment	**44.5**	46.5	(4.3)
	98.5	103.0	(4.4)
Other and eliminations	**(26.7)**	(32.0)	16.6
Consolidated operating revenues	**504.4**	500.9	0.7

Telecommunications generated year-over-year growth of 0.6 per cent in the first quarter of 2004. Strong wireless and Internet growth was partially offset by lower local and long distance revenue due to a continued intensely competitive environment and the impact of regulatory decisions and advancing technology.

Information Technology operating revenue for the first quarter of 2004 was slightly lower than the same period in 2003, with the majority of the decline being related to internal sales to the Telecommunications segment. External revenues continue to be impacted by the competitive marketplace and sustained pressure by clients to scale back their information technology (IT) investments.

Local revenue

Local revenue is earned through the provision of network access service (NAS), enhanced service features, data access, contribution payments, competitor payments, telephone set rentals, payphone usage and service charges.

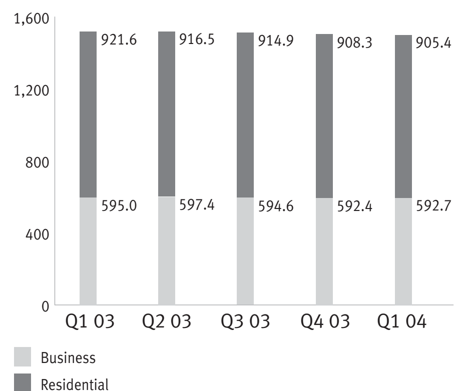
During the first quarter of 2004, we experienced a minimal decline in local revenues in comparison to the same period in the prior year primarily because of increasing competition and current year impacts from previous year regulatory decisions. Although we experienced a reduction in NAS customers, the magnitude of our net residential NAS losses declined by 14.2 per cent compared to the same period in the prior year. We were also negatively impacted by lower telephone set rentals as customers choose to purchase rather than rent telephone sets, and the continued negative impact of the Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") previous year price cap decision on contribution and competitor payments. In order to mitigate these effects on local revenue we focused on maximizing our customer retention programs, generating new revenue sources in data access and aggressively marketing enhanced service features.

Regulatory restrictions on win-back promotions and the ongoing restriction on bundling and packaging of local service with other non-regulated services in the face of an increasingly competitive marketplace continues to negatively impact our residential NAS customer base and our ability to meet customer needs. As a result, on April 7, 2004, we filed an application with the CRTC requesting them to stop regulating local residential phone service within areas across Nova Scotia and Prince Edward Island where significant competition currently exists. Refer to the discussion of regulatory developments in the "Risk and risk management" section for further details.

As evidenced by our strong growth in wireless and Internet, Atlantic Canadians are increasingly choosing services such as wireless, e-mail, instant messaging and short text messaging to complement or replace traditional telecommunications services. This trend, coupled with competitive and regulatory influences, has resulted in a decline in our residential NAS customer base. Business NAS decreased due to competitive losses, in particular the loss of one large customer in late 2003 as a result of a regulatory decision. These business NAS losses were offset, in part, by growth in small- to medium-sized businesses. In combination, residential and business NAS decreased by 1.2 per cent. NAS revenue, which represents over one half of all local revenues, declined 2.0 per cent as a result. We have and will continue to focus our efforts on customer retention in our local businesses.

Data access revenues have grown approximately 7 per cent due to newer data access services, such as data broadband, despite negative impacts of the CRTC price cap decision that required us to lower data access rates. We also experienced growth of approximately 4 per cent in enhanced service features revenue by up-selling customers to full features when selling Aliant Value Packages.

Wireline NAS customers
(in thousands)

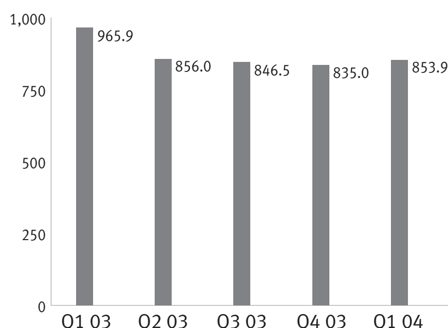


At March 31, 2004, our residential NAS customer base is 1.8 per cent lower than at March 31, 2003, contributing to a 1.2 per cent year-over-year decline in total NAS customers.

Long distance revenue

Long distance revenue consists of toll, data network and long distance terminating services.

Long distance minutes
(in millions)



In the first quarter of 2004, our long distance minute volumes decreased by 11.6 per cent over the first quarter of 2003, due in part to our decision to cap the minutes of unlimited calling plans.

The increasingly competitive marketplace contributed to the 8.6 per cent decline in long distance revenues as a result of continued price changes and rationalization by customers. We also experienced declines in terminating revenue due to lower per minute rates, however, this decline was offset by savings we achieved in terminating expenses for our customers' calls to other regions.

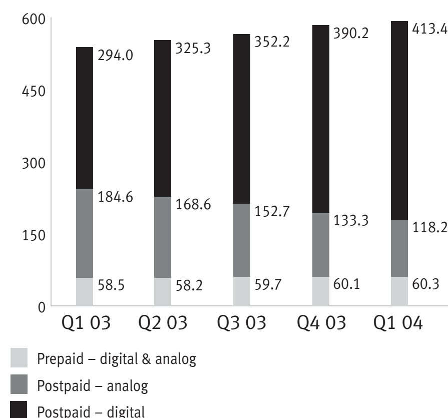
Residential long distance minutes declined due to a lower customer base, increased substitution of long distance calling with wireless and Internet options and the restructuring of our customer plans during 2003. Components of this restructuring, such as capping of the minutes available under certain unlimited calling plans, have enabled us to optimize the usage of our network and improve profitability of this segment.

In the business long distance market, competitive pressure and a decline in contact centre activity has led to reduced business long distance minutes and has had a negative impact on business long distance revenues overall. We continue to aggressively respond to the strongly competitive marketplace through offers designed to continually meet the needs of our customers.

Wireless revenue

Wireless revenue is earned through the provision of cellular, paging and mobile radio services.

Cellular customers
(in thousands)



Our cellular customers at March 31, 2004, grew 10.2 per cent over March 31, 2003. Included in this result is 43.1 per cent growth in our digital customers and 11.1 per cent growth in our postpaid customers.

Our wireless revenues for the first quarter of 2004 grew 18.3 per cent over the same period last year. We provide the most extensive and reliable cellular and data network available in Atlantic Canada. Our commitment to digital conversion has enabled us to achieve a 43.1 per cent increase in the number of digital customers. We have also achieved a 39.6 per cent increase in postpaid customer net additions, a 10.2 per cent increase in average minutes of use, an improved churn to 1.29 per cent and very strong growth in our data services portfolio. We experienced solid growth in postpaid customers of 11.1 per cent and average revenue per customer (ARPC) of 8.1 per cent.

Customer growth remained strong at 10.2 per cent as a result of competitive pricing offers, the continued rollout of our dealer branded stores, the packaging of wireless services with other non-regulated services, extensive handset selection and continued expansion of our digital cellular service into new areas. We experienced a 6.1 per cent increase in net activations over the same period last year. As at March 31, 2004, approximately 84 per cent of Atlantic Canada's population had access to our digital wireless network, up from 70 per cent at the same time last year. We also completed the expansion of our 1xRTT network to 100 per cent of our digital wireless network. Our expanded 1xRTT network is now carrying over 42 per cent of all digital voice traffic.

Wireless – statistics

For the three months ended March 31	**2004**	2003	% change
Monthly – average revenue per customer *(dollars)*			
Postpaid	**50.84**	47.02	8.1
Prepaid	**9.64**	7.97	21.0
Total	**46.62**	42.80	8.9
Monthly – average minutes of use per customer	**237**	215	10.2
Churn	**1.29%**	1.41%	(8.5)

The 8.9 per cent growth in total ARPC results from an increase in the average minutes of use, select price increases, increase in the percentage of customers choosing digital service and postpaid plans and an increase in data usage. Digital customers generate higher monthly ARPC than analog, likewise postpaid customers generate higher monthly ARPC than prepaid. Our digital customers represent 72.4 per cent of our cellular customer base compared to 55.7 per cent for the same point in time in 2003. Our postpaid customer mix of 89.8 per cent continues to lead the industry. Our churn, or customer turnover rate, has improved 8.5 per cent over the same period last year to 1.29 per cent. This improvement is due to a higher base of customers on long-term contracts, driven by hardware upgrades and customer service incentive programs focused on customer retention.

Internet revenue

Internet revenue consists of high-speed and dial-up service to residential and business markets, which include enhanced services such as Music on my PC™ and Personal Firewall.

Internet continues to perform extremely well, delivering strong growth of 14.2 per cent over the first quarter of 2003. We have generated this growth through attractive introductory offers, valued-added service offerings, dedicated high-speed service and expansion of our high-speed network coverage. Initiatives to aggressively manage churn and programs to improve ARPC have also contributed to continued strong customer and revenue growth.

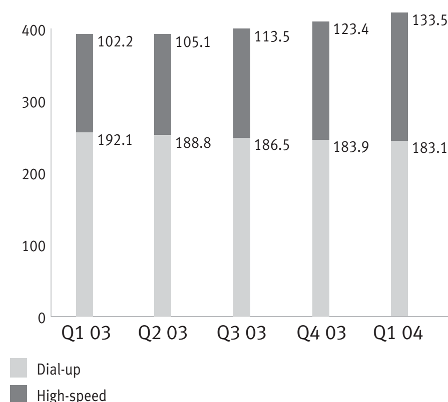
Internet – statistics

For the three months ended March 31	**2004**	2003	% change
Monthly – average revenues per customer *(dollars)*			
Consumer dial-up*	**19.68**	19.36	1.7
Consumer high-speed*	**33.48**	34.03	(1.6)
Business dial-up	**45.49**	43.77	3.9
Business high-speed	**98.49**	91.55	7.6
Churn	**2.14%**	1.90%	12.6

** This statistic has been restated to include revenues from enhanced services. This restatement was necessary to conform to the new industry standard of including all revenue derived from consumer Internet service in the calculation of average revenue per customer.*

All Internet product categories have seen improvement in ARPC year over year with the exception of consumer high-speed, which has remained relatively stable. The increases are attributable to the growing popularity of enhanced services and targeted price restructuring, mainly in the business market. Since early 2003, we have expanded our enhanced service offerings to include, TV on my PC™, various Internet security services and other service offerings. During the first quarter of 2004, we passed the

Internet customers
(in thousands)



Our Internet customer base at March 31, 2004, grew 7.6 per cent over March 31, 2003, including 30.6 per cent growth in our number of high-speed customers.

10,000 subscriber mark for our Internet security services, Anti-Virus, Personal Firewall and Parental Control. We have been successful in attracting new customers through promotional programs. This has had a minimal impact on consumer high-speed ARPC in the short-term and will bring long-term benefits through an increased customer base.

A key focus for us is loyalty management. The continuation of customer retention programs including loyalty bulletins and emphasis on long-term customer contracts, as well as the integration of Internet offers with our other product lines, has served to minimize the impact of competition on Internet churn. We continuously strive to add value to our customers' Internet experience and in March 2004, we launched our ultra high-speed service to meet the needs of the advanced Internet user.

Competitive pricing and the continued expansion of our high-speed Internet network combined to grow our Internet customer base by 7.6 per cent and our high-speed customer base by 30.6 per cent over the first quarter of 2003. Our high-speed Internet service now passes 66 per cent of the homes in Atlantic Canada, up from 61 per cent at March 31, 2003, and continues to expand.

Other revenue

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Product	**25.2**	24.6	2.4
Directory	**2.0**	1.8	11.1
Innovatia	**6.0**	5.6	7.1
Miscellaneous	**3.5**	8.5	(58.8)
Other revenues	**36.7**	40.5	(9.4)

Product revenues reflect growth in customer premise equipment and terminal equipment sales. Directory (yellow pages) revenues have grown despite increased competitive pressure, demonstrating the strong value that our customers place in our directories throughout Atlantic Canada. Innovatia revenue grew 7.1 per cent over the same period last year driven by strong performance in the contact centre solutions business launched in 2003. Miscellaneous revenues have decreased as a result of lower pole attachment revenues due to sales of poles in Newfoundland and Labrador, lower late pay rates driven by interest rate declines and lower revenues from broadcast circuits due to the presence of large broadcast events in our region in 2003, which did not recur in 2004.

IT services revenue

IT services revenue consists of systems integration, software engineering, infrastructure services and other IT consulting.

IT services revenue declined slightly during the first quarter of 2004 over the same period in 2003 due largely to reduced revenue from the Telecommunications segment. Services provided internally to the Telecommunications segment have declined over the past year due to role alignment and productivity improvement initiatives. Internally generated IT services revenues have decreased by $3.4 million or 14.2 per cent compared to the first quarter of last year. During the quarter, services to external clients increased by $1.0 million or 3.1 per cent over the same period last year. This increase reflects, in part, increased consumer demand for IT services. During the first quarter of 2004, xwave renewed contracts with existing clients and secured new business with customers, including Newfoundland and Labrador Hydro and Airbus, that will help sustain and grow revenues into the future.

Fulfillment revenue

Fulfillment revenue includes the sale of computer hardware, accessories and packaged software.

Fulfillment revenue declined slightly due primarily to a slowdown in both provincial and federal government spending in Atlantic Canada. Several government departments and agencies have implemented spending freezes in response to budgetary constraints. This slowdown has been partially offset by stronger sales in Ontario in both the private and public sectors.

Internal fulfillment revenues are $0.5 million lower than the first quarter of 2003 due to reduced procurement activity by our Telecommunications segment.

COST OF OPERATING REVENUES

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Cost of operating revenues	**74.5**	83.4	(10.7)

We decreased our cost of operating revenues by improving margins on product sales in both the Telecommunications and Information Technology segments despite a very competitive marketplace. The combination of improved margins and lower overall product and fulfillment sales has contributed to lower cost of operating revenues. We have also benefited from lower terminating costs in our long distance portfolio and lower payments to the national contribution pool.

OPERATING EXPENSES

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Operating expenses	**244.0**	236.0	3.4

Operating expenses have increased in the first quarter over the same period in 2003 due primarily to a $6.4 million increase in pension and other post employment benefits expense.

Pension and other post employment benefits expense

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Defined benefit	**12.9**	8.2	57.3
Defined contribution	**3.3**	2.0	65.0
Other post employment benefits	**3.9**	3.5	11.4
	20.1	13.7	46.7

The increase in pension and other post employment benefits expense relates primarily to the defined benefit (DB) pension expense. DB pension expense and other post employment benefits (OPEBs) expense are made up of a number of components. Each of these components is dependent on the actuarial valuations of the plans (see “Pension and other post employment benefit obligations and related cash funding requirements” section) and management’s assumptions about future events. These assumptions and the components of DB pension and OPEBs expense are disclosed in notes 1 and 5 to our unaudited interim consolidated financial statements for the three months ended March 31, 2004.

For the first quarter of 2004, the DB pension expense increased primarily due to the increase in the amortization of net actuarial losses attributable to the higher balance of accumulated actuarial losses. The balance of accumulated actuarial losses has increased, in part, because plan asset returns have been lower than expected and, in part, due to the plan liabilities being higher than anticipated. The liability growth has largely come from lower interest rates being used to discount the future expected

payments to pensioners. In particular, the amortization of accumulated actuarial losses has grown as the size of the losses has grown in recent years. In 2003, we amortized $8.9 million of the losses through pension expense. In 2004, we estimate that our pension expense will include loss amortization in the range of $18.0 to $20.0 million, of which $4.7 million was recorded in the first quarter.

The expense related to defined contribution (DC) pension plans is simply equal to the amount of the employer's required contribution to the employees' accounts. The increase is due to higher short-term salary incentive payments in the first quarter, which also attract pension contributions. We do not expect this large an increase in the DC pension expense through the remaining quarters of 2004.

Our OPEBs expense has increased due to the interest on the unfunded obligation as the OPEBs liability has grown.

Other operating expenses

The remaining $1.6 million increase in operating expenses reflects increases of $6.1 million in the Telecommunications segment, a reduction of intercompany activity, which increased operating expenses by $6.4 million, offset by a decrease of $10.9 million in the Information Technology segment.

The growth of Telecommunications' wireless and Internet services and an ever increasing customer focus throughout the organization have resulted in an increase in some operating expenses. These increases have been partially offset by various ongoing productivity and cost reduction initiatives, some of which involved our Information Technology segment and others which involved our majority shareholder, Bell Canada. These initiatives are outlined in the "Simplifying internal processes" section.

Information Technology's operating expenses declined significantly as a result of savings from workforce reductions initiated in the prior year as well as a sustained focus on cost management. Operating expenses for the first quarter of 2003 also included a $5.2 million charge for severance costs associated with downsizing activities. This downsizing combined with restructuring activities in the second half of the year resulted in a new operating model with a reduced cost structure for this segment.

DEPRECIATION AND AMORTIZATION

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Depreciation and amortization	**101.0**	98.2	2.8

Telecommunications' depreciation and amortization increased due to the higher proportion of capital investment in recent years being in broadband and wireless assets, which have depreciable lives as short as three years.

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

RESTRUCTURING CHARGE

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Restructuring charge	**3.1**	—	—

During the first quarter of 2004, Telecommunications executed a restructuring plan, which resulted in a charge of $1.9 million. This plan consisted of a comprehensive restructuring of Innovatia's eLearning operations and other costs associated with workforce reduction. These costs are largely severance and related benefits. The objective of this plan is to improve productivity and profitability.

Information Technology incurred $1.2 million in restructuring charges during the first quarter of 2004. This is a continuation of xwave's strategy realignment and business model simplification and consists of severance and related benefits.

OTHER INCOME (EXPENSES)

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Interest income	**7.1**	3.1	129.0
Provincial large corporation tax	**(1.9)**	(1.2)	58.3
Accounts receivable securitization	**(1.0)**	(1.1)	(9.1)
Miscellaneous charges	**(1.2)**	(1.1)	9.1
	3.0	(0.3)	—

Other income has increased by $3.3 million due to interest earned on previous years' tax reassessments partially offset by higher provincial large corporation tax.

INTEREST CHARGES

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Interest charges	**19.2**	20.9	(8.1)

Interest charges have decreased in 2004 compared to the prior year due to a decrease in the amount of outstanding debt held by Telecommunications. Telecommunications repaid $72.5 million in debentures and bonds in June and July of 2003.

INCOME TAXES

Calculation of effective income tax rate

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Net income from continuing operations	**40.7**	37.5	8.5
Addback:			
Income taxes	**24.5**	24.7	(0.8)
Non-controlling interest	**0.5**	(0.1)	—
Net income from continuing operations before income taxes and non-controlling interest	**65.7**	62.1	5.8
Effective income tax rate	**37.36%**	39.75%	(6.0)

The income tax provision decreased despite an increase in net income from continuing operations due to the decline in the effective income tax rate. The decline in the rate is mainly attributable to lower statutory rates in 2004, compared to 2003, as detailed in the following table:

Factors impacting effective income tax rate

For the three months ended March 31	**2004**	2003
Statutory income tax rate (including surtax)	**35.85%**	40.31%
Federal large corporation tax	**1.67**	0.31
Tax rate change – future asset	**(0.44)**	(0.48)
Non-taxable gain	**(0.02)**	(0.08)
Non-deductible goodwill	**0.07**	—
Benefit of non-capital losses not recognized	**0.02**	—
Other permanent differences	**0.21**	(0.31)
Effective income tax rate	**37.36%**	39.75%

NON-CONTROLLING INTEREST

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Non-controlling interest	**0.5**	(0.1)	—

Non-controlling interest mainly represents the proportionate results of Atlantic Mobility Products.

NET INCOME AND EARNINGS PER SHARE

For the three months ended March 31

(millions of dollars except per share amounts)	**2004**	2003	% change
Net income:			
Continuing operations	**40.7**	37.5	8.5
Discontinued operations	**—**	1.4	—
Total net income	**40.7**	38.9	4.6
Earnings per common share:			
Continuing operations	**0.29**	0.25	16.0
Discontinued operations	**—**	0.01	—
Total earnings per common share	**0.29**	0.26	11.5

Our exit from non-core businesses in 2003 resulted in the reclassification of prior period results of these businesses as discontinued operations. In the first quarter of 2003, the results from discontinued operations reflect the operating activities of the businesses prior to their disposition.

The increase in net income from continuing operations for the first quarter of 2004 over 2003, is due to higher operating income resulting from our strength in wireless and Internet, higher interest income and lower interest charges. These factors outweighed any negative impact of the restructuring charge and year-over-year increase in pension and OPEBs expense as detailed in the consolidated quarterly results analysis table in the "Supplementary financial information" section.

FINANCIAL AND CAPITAL MANAGEMENT

SUMMARY OF CONSOLIDATED CASH FLOWS

Cash and cash equivalents at March 31, 2004, were $323.6 million. During the first quarter, we have generated $146.8 million in cash from operations and we anticipate that we will continue to generate strong cash flow from operations throughout the year. We will deploy cash that is not required in our operations at this time in a manner consistent with our objective of maximizing shareholder value. This involves the buyback of common shares under the existing NCIB in order to optimize our cost of capital while keeping our debt ratio at an appropriately conservative level. We plan to buy back the remaining 1,116,014 shares allowed under our current NCIB. We also plan to invest in new opportunities to support our future growth through strategic investment in operations complementary to our core business.

Our cash requirements for the remainder of 2004 will consist of purchases of shares under our current NCIB, dividend payments, repayment of debt, funding of required pension plan contributions, required capital investments and scheduled contractual obligations. The only significant debt repayment that is scheduled for 2004 is a $100.0 million bond maturing in October and we expect to repay this out of cash from operations. DB pension plan funding required in 2004 is anticipated to be in the range of $50.0 to $70.0 million, of which $16.0 million has been paid to March 31, 2004.

OPERATING ACTIVITIES

Summary of cash flows from operating activities

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Net income from continuing operations	**40.7**	37.5	8.5
Non-cash items	**116.7**	86.4	35.1
	157.4	123.9	27.0
Change in non-cash working capital balances related to operations	**(10.6)**	98.4	—
Cash from continuing operations	**146.8**	222.3	(34.0)

Cash generated from continuing operating activities has decreased by $75.5 million, which represents a $21.4 million increase due to improved earnings and working capital management offset by a $96.9 million decrease related to income and other taxes payable and future income taxes.

Change in non-cash working capital balances related to operations

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Accounts receivable	**37.2**	7.7	—
Income and other taxes payable	**(26.0)**	92.8	—
Prepayments	**(3.9)**	(6.1)	(36.1)
Inventory	**(0.7)**	(1.3)	(46.2)
Accounts payable and other liabilities	**(17.2)**	5.3	—
Change in non-cash working capital balances related to operations	**(10.6)**	98.4	—

During the first quarter of 2004, non-cash working capital absorbed cash of $10.6 million, compared to $98.4 million in cash generated in the first quarter of 2003. Of this decrease, $118.9 million relates to income and other taxes payable, as there was a lower amount of income and other tax related refunds in the current year due to the receipt of $55.0 million for the settlement of prior years' claims for Scientific Research and Experimental Development investment tax credits in the first quarter of 2003, the increase in income taxes receivable as a result of higher pension funding in the first quarter of 2004 and the timing of tax installments.

FINANCING ACTIVITIES

Summary of cash flows from financing activities

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Repayments of notes payable and bank advances	**(8.7)**	(41.7)	(79.1)
Repayments of long-term debt	**(0.2)**	(1.1)	(81.8)
Net repurchase of common shares	**(18.7)**	(19.0)	(1.6)
Preferred and common share dividends	**(37.7)**	(35.0)	7.7
Other financing activities	**(5.5)**	—	—
Cash used in financing activities	**(70.8)**	(96.8)	(26.9)

Cash used in financing activities in the first quarter of 2004 has been related to common share repurchases made under our current NCIB and payment of dividends. The increased use of cash from other financing activities related primarily to the repurchase of accounts receivable under our accounts receivable securitization program.

Liquidity and financing resources

As at March 31, 2004, we maintain lines of credit totalling $557.0 million in aggregate with our bankers. These lines of credit are unchanged from December 31, 2003, and consist of $350.0 million in a committed facility supporting our commercial paper program, $150.0 million in uncommitted operating lines and $57.0 million in bank operating lines of credit within our business segments. There were no balances outstanding under our commercial paper program or uncommitted operating lines as at March 31, 2004.

Bank operating lines of credit within our business segments include:

- $42.0 million in Telecommunications – which had $4.3 million outstanding as at March 31, 2004, compared to $4.5 million at December 31, 2003; and
- $15.0 million in Information Technology – there were no amounts drawn at March 31, 2004, on this line of credit compared to a balance of $6.0 million at December 31, 2003. Letters of credit committed against this line of credit total $6.1 million at March 31, 2004, compared to $6.9 million at December 31, 2003.

Consolidated capital structure

(millions of dollars)	**March 31, 2004**		December 31, 2003	
Common equity	**1,435.9**	**54.5%**	1,451.6	54.7%
Preferred equity	**172.3**	**6.5%**	172.3	6.5%
Non-controlling interest	**4.0**	**0.2%**	4.1	0.1%
Long-term debt, including current portion	**989.9**	**37.5%**	990.1	37.3%
Short-term debt, including bank indebtedness and interest payable	**33.3**	**1.3%**	36.1	1.4%
	2,635.4	**100.0%**	2,654.2	100.0%

The percentage of debt to total capital was 38.8 per cent at March 31, 2004, virtually unchanged from December 31, 2003.

Corporate equity instruments

We issued common shares in the amount of $2.2 million for the first quarter of 2004, by way of our common shareholder dividend reinvestment and stock purchase plan, and the exercise of options under our employee stock option plan. Shares were purchased on the open market to fulfill the requirements of our employees' stock savings plan.

Under the NCIB, which commenced on August 6, 2003, for a twelve-month period ending August 5, 2004, we purchase, from time to time, our common shares for cash through the facilities of the Toronto Stock Exchange. All common shares purchased pursuant to this NCIB will be cancelled. Further details on this NCIB are provided in note 11 to our unaudited interim consolidated financial statements for the three months ended March 31, 2004. As at March 31, 2004, we had purchased for cancellation 5,808,986 common shares under this NCIB at an aggregate price of $183.5 million, of which 616,116 common shares were purchased during the first quarter of 2004 at an aggregate price of $19.6 million.

Despite the lower number of shares outstanding, the total dividends that we paid to our common shareholders increased $1.9 million for the quarter over 2003 levels to $36.7 million. This increase reflects the increase in the quarterly dividend of $0.025 per common share effective with the June 30, 2003, dividend, which raised the annual rate to $1.10 per common share. Dividends paid that were subsequently reinvested in the dividend reinvestment plan were $2.3 million for the first quarter of 2004 compared to $2.2 million in the prior year.

We paid preferred shareholder dividends of $2.4 million in the first quarter of 2004, consistent with the amount paid in the first quarter of 2003.

Outstanding shares and stock options

as of April 21, 2004

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares, without par value.

Issued

	April 21, 2004	
(millions of dollars)	Number of shares	Value
Preference shares, series 2	7,000,000	172.3
Common shares	132,908,211	1,031.9
		1,204.2

	April 21, 2004	
(dollars)	Number of options	Weighted average exercise price
Options outstanding	2,709,246	30.56
Options exercisable	1,895,514	30.68

Between April 1, 2004, and April 21, 2004, we purchased for cancellation 178,802 common shares under the NCIB at an aggregate price of $5.4 million.

INVESTING ACTIVITIES

Summary of cash flows from investing activities

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Capital investments	**(84.8)**	(70.6)	20.1
Other investing activities	**(32.9)**	5.3	—
Cash used in investing activities	**(117.7)**	(65.3)	80.2

Cash used in investing activities has increased significantly over the same period in 2003. Other investing activities include a special deficit-funding pension contribution of $25.0 million in January 2004, which completed the $55.0 million additional funding approved by the board of directors in December 2003. Regular funding of the DB pension plans also increased from $2.7 million in the first quarter of 2003 to $16.0 million in 2004 due to the funding requirements identified in the most recent actuarial valuations.

CAPITAL INVESTMENTS

For the three months ended March 31

(millions of dollars)	**2004**	2003	% change
Telecommunications	**84.4**	69.8	20.9
Information Technology	**0.4**	0.5	(20.0)
Other	**—**	0.3	—
Total capital investments	**84.8**	70.6	20.1

Telecommunications
Telecommunications' capital investment for the first quarter of 2004 is $14.6 million higher than the investment for the same period in 2003. This increase arises from digital subscriber line (DSL) expansion and material investment in strategic initiatives such as the Broadband and Rural Network Development (BRAND) program, our customer services transformation program and our next generation network.

Our efforts to grow our high-speed Internet network have included investment in the BRAND initiative and additional DSL expansion. In partnership with federal, provincial and municipal governments, we participated in the BRAND initiative in the first quarter of 2004 by investing in the first stage of this two-year program. In addition, our DSL investment in the first quarter of 2004 was higher than our investment in the first quarter of 2003. Through our participation in the BRAND program and our own DSL expansion, we will expand high-speed Internet access to 70 per cent of Atlantic Canadian homes by the end of 2004.

Our first quarter investment in customer service transformation was the first step in our initiative, which is anticipated to result in productivity improvements and enhanced customer care, when completed.

Continued investment in our next generation network occurred this quarter to fund the continued development of VoIP and multi-protocol label switching technology. In addition, we have enhanced the reliability of existing networks to better combat virus attacks, when they occur.

Our core investment continues to include ongoing investment to support our existing networks and asset base and to grow and support our wireless coverage.

Information Technology
Capital investment during the quarter was consistent with the prior year. The nature of the business requires limited capital investment and capital projects continue to closely support the current business model.

OTHER FINANCIAL ARRANGEMENTS

Off-balance sheet arrangements

Off-balance sheet arrangements involve transferring accounts receivable to a securitization trust. Further details on this arrangement are provided in notes 1 and 2 to our unaudited interim consolidated financial statements for the three months ended March 31, 2004. During the first quarter of 2004, we restructured the accounts receivable securitization agreement to lower the facility from $150.0 million to $125.0 million. At December 31, 2003, we had sold accounts receivable to the trust for net cash proceeds of $130.0 million, decreasing to $125.0 million in the first quarter of 2004. The security supporting the facility, which represents additional accounts receivable over and above the net cash proceeds received, was also restructured requiring the transfer of a further $10.3 million of accounts receivable to the trust. The security supporting the agreement is included in deferred charges as a retained interest in the securitization trust.

We also have various operating leases and purchase commitments for equipment and other network infrastructure. The amounts of estimated future payments are disclosed in note 18 of our unaudited interim consolidated financial statements for the three months ended March 31, 2004, and have not materially changed from those disclosed in the MD&A for the year ended December 31, 2003.

Derivative financial instruments

Our derivative financial instruments consist of interest rate swap and interest rate swaption agreements. Further details of these agreements are provided in notes 1 and 17 to our unaudited interim consolidated financial statements for the three months ended March 31, 2004. There has been no change in the purpose or terms of these derivative financial instruments during the first quarter of 2004.

Pension and other post employment benefits obligations and related cash funding requirements
Most of our employees participate in one of our pension plans in order to assist in providing for their retirement. While most new employees participate in a DC pension plan, we still have many active employees in one of our four non-contributory DB pension plans. We also offer retiring employees certain other non-pension benefits such as health and dental care and disability insurance. The DB pension plans require periodic funding payments to be made to a trust fund while the OPEB plans require cash payments to be made directly to the plan carrier or to the retired employee.

The DC pension plan requires both the employee and the employer to contribute a fixed periodic amount to an account that is administered for the benefit of the employee. As the employer, our contributions are between 4 per cent and 6 per cent of a member-employee's pensionable earnings and the employees' contributions are between 0 per cent and 6 per cent. There are no issues or risks in measuring and reporting the costs of a DC pension plan as the periodic expense is simply equal to the amount the employer must contribute to the plan.

In contrast, the DB pension plans provide for a periodic payment to the retired employee that is based on the number of years of service and their best five-year average salary prior to retirement. Therefore, the value of the total pension that is paid in a DB pension plan is dependent upon several future unknown variables such as the employee's years of service, salary, life expectancy and inflation rates. An actuarial valuation is necessary in order to project the payments in a DB pension plan and to discount those payments at a current rate of interest to place a current value on the total pension obligation. The actuarial valuation also prescribes the contributions that we must make to the trust fund that is established to pay the DB pensions.

We perform actuarial valuations on our DB pension plans at least every three years. During 2003, we completed the actuarial valuations of our DB pension plans as of December 31, 2002. This valuation identified total minimum funding requirements of approximately $63.7 million for 2003. The valuation also showed that our DB pension plans are in deficit positions, which means the obligations under the plans exceeds the assets that are currently held in trust to satisfy those obligations. In December 2003, we decided to make an additional $55.0 million contribution in excess of the minimum funding requirements to partially address the deficits in the plans. A $30.0 million cash contribution was made in December 2003 with the remaining $25.0 million cash contribution made in January 2004. Total DB pension plan funding in 2003 was $124.7 million.

The actuarial valuation completed in 2003 also identified that the plans had incurred some actuarial losses. These losses arise from time to time because actual experience in the plans (i.e. retirement rates, salary increases and mortality rates) between valuation dates has been worse than originally forecasted. Similarly, a plan can also experience actuarial gains when actual results are better than forecast. Gains and losses can also arise because assumptions about the future experience change from one valuation to another. The total actuarial loss identified in the actuarial valuation was $83.4 million, which increased the total pension obligation and must be amortized into our pension expense over a number of years. Refer to operating expenses under the "Operating results" section for a discussion of the effect of loss amortization on pension expense.

We are currently updating our actuarial valuations for the year ended December 31, 2003, and expect these to be completed in the second quarter of 2004. These valuations could result in either lower or higher minimum required contributions to the DB pension plans than the $63.7 million required for 2003. In the meantime, we are making periodic contributions at the 2003 rate, or $16.0 million in the first quarter of 2004. Based on improved investment returns of the DB pension plan assets in 2003 and the extra contributions that were made in December 2003, minimum funding requirements for 2004 may decline in the updated valuations.

Related party transactions

In the normal course of business we engage in numerous transactions with our majority shareholder, Bell Canada, such as the purchase of telecommunications and other services, the provision of telecommunications services and the purchase of capital investments. We also repurchased shares for cancellation from Bell Canada through our NCIB. Refer to note 19 of our unaudited interim consolidated financial statements for the three months ended March 31, 2004, for greater detail on our related party transactions.

SIGNIFICANT ACCOUNTING POLICIES

Our unaudited interim consolidated financial statements have been prepared in accordance with Canadian GAAP. Greater detail on our significant accounting policies is provided in note 1 to our unaudited interim consolidated financial statements for the three months ended March 31, 2004. The accounting policies and methods, key assumptions and estimates, and choice of alternative acceptable accounting policies are consistent with those in effect in the most recent annual audited financial statements and as further disclosed in our MD&A for the year ended December 31, 2003, except as otherwise noted in the "Accounting policies adopted in 2004" section.

ACCOUNTING POLICIES ADOPTED IN 2004

Asset retirement obligation

Effective January 1, 2004, we retroactively adopted the CICA handbook section 3110, Asset retirement obligations. This standard provides guidance on the recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of tangible long-lived assets. These obligations are initially measured at fair value and recognized in the year in which they are incurred or when a reasonable estimate of fair value can be made. The fair value is the amount at which the liability could be settled in a current transaction. The initial fair value estimate is subject to subsequent adjustments to reflect the passage of time and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized with the related asset and amortized into earnings over the asset's useful life. The adoption of this standard had no material impact on our financial position, results of operations or cash flows.

RISK AND RISK MANAGEMENT

While management is confident about our long-term prospects, 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. A comprehensive discussion of these risks can be found in our MD&A for the year ended December 31, 2003, as presented on pages 37 to 40 of our 2003 annual report. Our discussion below is limited to significant changes in these risks up to and including April 28, 2004.

REGULATORY DEVELOPMENTS

A number of CRTC proceedings are currently underway that deal with issues of significance to incumbent local exchange carriers (ILECs), such as us. These proceedings include a review of bundled services, new floor price rules for ILECs' price-regulated services, costs of certain services provided to competitors and the deferral account mechanism.

The CRTC has continued its recent trend of increasing the level of regulation applicable to the local services we offer. On January 27, 2004, in its 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 affect our ability to provide the affected customers with choice of service provider.

On March 22, 2004, the CRTC determined that Aliant Value Packages (under which we provided regulated and non-regulated bundles of services to residential customers) were bundles that required CRTC approval. We have made the necessary changes to these service offerings to separate the regulated and non-regulated bundles so that CRTC approval is not required and we have satisfied regulatory compliance requirements.

The CRTC initiated a public proceeding on March 24, 2004, to review the amounts in each ILECs' deferral account and to determine how to dispose of any of those amounts. This proceeding will continue until late September 2004 and we do not expect that a decision will be rendered until some time in 2005. For additional information on the deferral account mechanism refer to note 21 of our unaudited interim consolidated financial statements for the three months ended March 31, 2004.

On April 7, 2004, the CRTC initiated the process that will examine how, and if, services provided over IP networks should be regulated. The outcome of this process may place additional regulatory restrictions on ILECs.

On April 7, 2004, we filed an application with the CRTC requesting the CRTC to stop regulating local residential phone service within areas of Nova Scotia and Prince Edward Island where there is significant local residential competition. This application was filed because we feel the time is right for the CRTC to enable customers to choose freely from comparable and compelling offers provided by companies that are truly focused on their needs. In addition, we asked the CRTC to provide us with immediate exemption from past CRTC decisions that negatively affect customers in competitive areas, including:

- the restriction that prevents us from providing special promotional offers to local customers in competitive areas;
- the restriction imposed on us related to when we can contact customers who have left our local service to invite them to return to us; and
- the ability to file special promotional offer requests with the CRTC in a confidential manner, so that we can launch these offers to customers without competitors having advance notice, as is appropriate in a competitive market.

A copy of this filing entitled "Forbearance application for residential wireline local services in specified exchanges" can be found at www.aliant.ca.

The outcome of future CRTC rulings could significantly impact our ability to compete and in particular our ability to generate earnings. We are actively participating in these proceedings by providing evidence, information, and arguments to the CRTC that defend our positions and present alternatives that promote economically sound competition that will provide benefits and choice for customers.

COMPETITIVE DEVELOPMENTS

The competitive intensity we face in Atlantic Canada remains consistent with what would be expected from the most competitive telecommunications market in Canada. Competitors of every type continue to pursue our business and will continue to do so in the future.

We continue to see increased local competition across all customer segments. Competitors continue to target businesses and consumers with aggressively priced offerings in an effort to encourage customer migration. The increased availability of VoIP solutions is creating increased interest in the market, however, customers continue to seek our expertise in aiding their understanding of the evolution of communications in Atlantic Canada.

Long distance competition has been impacted by the recent entry and increased awareness of a new dial-around provider, impacting us and other alternate long distance providers in this market. The relatively recent but expected entry of VoIP providers, while not expected to have an immediate impact, will contribute to the downward per minute revenue pressure already experienced. Meanwhile, we continue to aggressively promote our affordable long distance packages reinforcing our price competitiveness for most customers.

The Internet competitive environment intensified as telephone companies compete with cable companies vying for the broadband home. This increased intensity has affected not only promotional activities but also innovation and bundling of access and enhanced features. The potential continues to exist for "free" bundling of enhanced services, reducing enhanced services revenue opportunities, while potentially placing upward pressure on cost as usage increases.

Without adequate preparation, competition can place our strategies, revenue and net income at risk. For this reason we constantly monitor our competitive marketplace, modifying and creating plans to optimize our position in the Atlantic Canadian market.

RENEGOTIATING LABOUR AGREEMENTS

On February 24, 2004, we tabled an Offer for Settlement during conciliation discussions with the Council of Atlantic Telecommunications Unions ("CATU"). The CATU reviewed the offer and provided a partial response. On March 11, 2004, we tabled a revised Offer for Settlement, which incorporated minor changes to address some of the issues raised by the CATU. The CATU advised us on March 12, 2004, that our offer was unacceptable to them and conducted meetings with employees to recommend rejection of the offer and seek a strike mandate. The conciliation process ended on March 12, 2004, resulting in a 21-day cooling-off period, which ended on April 3, 2004.

On April 13, 2004, the union announced that 93.4 per cent of its membership that cast ballots voted to reject our latest Offer for Settlement as presented on March 11, 2004. On April 19, 2004, the CATU provided management with formal notice for a legal strike to take effect April 23, 2004. Despite continued negotiations throughout the week of April 19, 2004, and a new offer that we tabled on April 23, 2004, a mutually acceptable agreement could not be reached. On April 23, 2004, a legal work stoppage began and continues to be in effect.

The ongoing process of negotiating collective agreements may result in higher labour costs or work disruptions that affect our operating results and financial condition.

OTHER LEGAL AND REGULATORY MATTERS

During the first quarter, a legal action was commenced against us by Exigen Ltd. We are in consultation with our legal counsel over the matter but are unable to determine the outcome at this time. Note 21 to our unaudited interim consolidated financial statements for the three months ended March 31, 2004, presents a discussion of significant contingencies outstanding at that time.

In addition, please refer to the discussion of regulatory developments under the "Risk and risk management" section for a description of certain regulatory initiatives and proceedings that could affect our Telecommunications segment.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this document constitute forward-looking statements. These forward-looking statements relate 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", "target", "goal" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: general economic conditions; market or business conditions; increased competition; changing regulatory conditions or requirements; changing technology; the outcome of collective bargaining; and success in implementing productivity initiatives; 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.

SUPPLEMENTARY FINANCIAL INFORMATION

CONSOLIDATED QUARTERLY FINANCIAL INFORMATION *(unaudited)*

For the eight quarters ended March 31, 2004			2002				2003	**2004**
(millions of dollars except per share amounts)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Total operating revenues	522.6	507.4	511.4	500.9	517.3	513.9	527.0	**504.4**
Net income from continuing operations	61.3	44.8	2.2	37.5	61.3	50.7	45.4	**40.7**
Net income (loss) from discontinued operations	23.2	(0.7)	(6.7)	1.4	9.3	0.2	100.4	**—**
Net income (loss)	84.5	44.1	(4.5)	38.9	70.6	50.9	145.8	**40.7**
Preferred share dividends	2.4	2.4	2.4	2.4	2.4	2.3	2.4	**2.4**
Net income (loss) applicable to common shares	82.1	41.7	(6.9)	36.5	68.2	48.6	143.4	**38.3**
Basic earnings per common share:								
Continuing operations	0.42	0.30	—	0.25	0.42	0.36	0.32	**0.29**
Discontinued operations	0.17	—	(0.05)	0.01	0.07	—	0.75	**—**
Basic earnings per common share	0.59	0.30	(0.05)	0.26	0.49	0.36	1.07	**0.29**
Diluted earnings per common share:								
Continuing operations	0.42	0.30	—	0.25	0.42	0.36	0.32	**0.29**
Discontinued operations	0.17	—	(0.05)	0.01	0.07	—	0.74	**—**
Diluted earnings per common share	0.59	0.30	(0.05)	0.26	0.49	0.36	1.06	**0.29**

Factors impacting comparability of quarterly results

Trends

Telecommunications operating revenues have generally increased quarter over quarter due to significant growth in wireless and Internet services, which has been partially offset by lower revenue from local and long distance services due to increased competition, CRTC regulations and technological advancements.

Information Technology operating revenues have decreased as clients scaled back their information technology expenditures in response to subdued market conditions and a slow down in government spending.

Seasonality of results

Telecommunications experiences seasonality as the recognition of the majority of our directory (yellow pages) revenues occurs in the second quarter coinciding with the timing of the issuance of the majority of our directories, as well, the timing of product sales are typically large and sporadic in nature.

Information Technology experiences seasonality in its business with the greatest impact in the fulfillment business. In the fulfillment business, the first quarter of the year is historically the strongest as a result of government fiscal year-end spending, although this effect has been somewhat lessened in recent years. Service revenues are contract based and fluctuate in accordance with the size and number of outstanding contracts; in particular, the third quarter is adversely impacted by client vacations.

Other factors

Net income and earnings per share fluctuates from quarter to quarter due to items outside of the normal course of operations and the impact of pension and other post employment benefits expense.

CONSOLIDATED QUARTERLY RESULTS ANALYSIS *(unaudited)*

Impact of items outside of the normal course of operations

For the eight quarters ended March 31, 2004			2002				2003	**2004**
(millions of dollars except per share amounts)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Impact on net income								
Increase (decrease) in net income from continuing operations								
Restructuring charge, net of tax	—	—	—	—	—	(9.3)	0.6	**(1.9)**
Writedown of investments, net of tax	(4.5)	—	—	—	—	—	(12.3)	**—**
Writedown of goodwill related to xwave	—	—	(50.0)	—	—	—	—	**—**
Writedown of assets related to xwave, net of tax	—	(7.4)	—	—	—	—	—	**—**
	(4.5)	(7.4)	(50.0)	—	—	(9.3)	(11.7)	**(1.9)**
Increase (decrease) in net income from discontinued operations								
Gain (loss) on sale of subsidiary, net of tax	—	—	—	—	10.9	(2.0)	95.7	**—**
Stratos dilution gain and gain on foreign exchange, net of non-controlling interest	45.2	—	—	—	—	—	—	**—**
Investment writedowns, net of tax	—	(19.7)	—	—	—	—	—	**—**
	45.2	(19.7)	—	—	10.9	(2.0)	95.7	**—**
Increase (decrease) in net income	40.7	(27.1)	(50.0)	—	10.9	(11.3)	84.0	**(1.9)**
Impact on earnings per share								
Increase (decrease) in earnings per share:								
Continuing operations	(0.03)	(0.05)	(0.36)	—	—	(0.06)	(0.09)	**(0.01)**
Discontinued operations	0.33	(0.14)	—	—	0.08	(0.01)	0.71	**—**
Earnings per share	0.29	(0.19)	(0.36)	—	0.08	(0.07)	0.62	**(0.01)**

Impact of pension and other post employment benefits expense

For the eight quarters ended March 31, 2004			2002				2003	**2004**
(millions of dollars except per share amounts)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Decrease in:								
Net income from continuing operations	(3.0)	(3.0)	(3.0)	(8.5)	(8.7)	(10.1)	(9.6)	**(12.4)**
Earnings per share from continuing operations	(0.02)	(0.02)	(0.02)	(0.06)	(0.06)	(0.07)	(0.07)	**(0.09)**

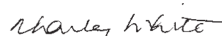
Statements *(unaudited)*

CONSOLIDATED BALANCE SHEETS

(thousands of dollars)	Notes	**As at March 31, 2004**	As at December 31, 2003
Assets			
Current assets			
Cash and cash equivalents		**323,626**	365,330
Accounts receivable	2, 19	**273,335**	315,903
Inventory		**21,897**	21,177
Prepayments		**29,793**	25,871
Income tax receivable	3	**34,254**	23,423
Future income tax asset	3	**2,434**	—
		685,339	751,704
Capital investments	4	**1,997,074**	2,013,522
Other assets			
Deferred charges		**97,459**	92,932
Future income tax asset	3	**5,993**	12,891
Accrued benefit asset	5	**166,531**	163,440
Goodwill	6	**31,804**	31,804
		301,787	301,067
Total assets		**2,984,200**	3,066,293
Liabilities and shareholders' equity			
Current liabilities			
Notes payable and bank advances	7	**9,078**	17,827
Payables and accruals	8, 19	**197,658**	238,332
Income tax payable	3	**189**	18,806
Future income tax liability	3	**—**	3,797
Long-term debt due within one year	9	**101,510**	101,535
		308,435	380,297
Long-term debt	9	**888,275**	888,524
Accrued benefit liability	5	**162,143**	159,156
Deferred credits		**13,150**	10,337
		1,372,003	1,438,314
Non-controlling interest	10	**4,048**	4,051
Shareholders' equity			
Capital stock	11	**1,205,529**	1,208,062
Retained earnings		**402,620**	415,866
		1,608,149	1,623,928
Total liabilities and shareholders' equity		**2,984,200**	3,066,293

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors



Charles White
Chairman

Edward Reevey
Director

CONSOLIDATED STATEMENTS OF INCOME

For the three months ended March 31

(thousands of dollars except per share amounts)	Notes	**2004**	2003
Operating revenues	12	**504,442**	500,889
Expenses			
Cost of operating revenues		**74,495**	83,436
Operating expenses		**244,008**	235,991
Depreciation and amortization		**100,959**	98,190
Restructuring charge	8	**3,083**	—
		422,545	417,617
Operating income		**81,897**	83,272
Other income (expenses)	13	**3,010**	(264)
Interest charges			
Interest on long-term debt		**18,855**	20,651
Other interest expense		**367**	292
		19,222	20,943
Income before underlisted items		**65,685**	62,065
Income taxes	3	**24,539**	24,672
Income before non-controlling interest		**41,146**	37,393
Non-controlling interest		**466**	(107)
Net income from continuing operations		**40,680**	37,500
Net income from discontinued operations	14	**—**	1,388
Net income		**40,680**	38,888
Earnings per common share	15		
Basic from continuing operations		**0.29**	0.25
Basic from discontinued operations		**—**	0.01
Basic		**0.29**	0.26
Diluted from continuing operations		**0.29**	0.25
Diluted from discontinued operations		**—**	0.01
Diluted		**0.29**	0.26

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the three months ended March 31

(thousands of dollars)	Note	**2004**	2003
Retained earnings, beginning of period		**415,866**	354,080
Net income		**40,680**	38,888
Preferred share dividends		**(2,384)**	(2,384)
Common share dividends		**(36,679)**	(34,749)
Excess of repurchase of common shares over stated value	11	**(14,863)**	—
Retained earnings, end of period		**402,620**	355,835

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31

(thousands of dollars)	Notes	**2004**	2003
Cash and cash equivalents from (used in) operations			
Net income from continuing operations		**40,680**	37,500
Add (deduct) non-cash items:			
Depreciation and amortization		**100,959**	98,190
Future income taxes		**(1,400)**	(23,324)
Deferred post employment benefits costs		**16,735**	11,660
Non-controlling interest		**466**	(107)
Other non-cash items		**(81)**	(21)
		157,359	123,898
Change in non-cash working capital balances related to operations		**(10,585)**	98,400
		146,774	222,298
Cash and cash equivalents from (used in) financing			
Repurchase of accounts receivable	2	**(5,000)**	—
Repayments of notes payable and bank advances		**(8,750)**	(41,658)
Repayments of long-term debt		**(193)**	(1,131)
Decrease in non-controlling interest		**(469)**	—
Repurchase of common shares		**(18,723)**	(19,035)
Preferred share dividends		**(2,384)**	(2,384)
Common share dividends		**(35,290)**	(32,562)
		(70,809)	(96,770)
Cash and cash equivalents from (used in) investing			
Capital investments		**(84,796)**	(70,636)
Proceeds on sale of investments		**—**	2,107
Decrease (increase) in deferred charges and credits		**(32,873)**	3,273
		(117,669)	(65,256)
Cash and cash equivalents from (used in) continuing operations		**(41,704)**	60,272
Cash and cash equivalents from (used in) discontinued operations	14	**—**	(111)
Cash and cash equivalents, beginning of period		**365,330**	178,212
Cash and cash equivalents, end of period		**323,626**	238,373
Supplementary disclosure			
Interest paid		**13,389**	14,427
Income taxes paid		**34,666**	13,254

See accompanying notes to the consolidated financial statements

Statement notes *(unaudited)*

1 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods we followed for interim reporting purposes are consistent with those in effect for the most recent annual financial statements for the year ended December 31, 2003, except as noted under Asset retirement obligation. These unaudited interim financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2003.

The significant accounting policies we followed in preparing our unaudited interim financial statements are summarized below:

Consolidated financial statements

We have prepared consolidated financial statements according to Canadian generally accepted accounting principles (Canadian GAAP).

We consolidate the financial statements of all the companies we control. We proportionately consolidate our share of the financial statements of our joint venture interest.

At March 31, 2004, our principal subsidiaries include Aliant Telecom Inc., Innovatia Inc., Aliant Information Technology Inc. and Xwave Solutions Inc. and our joint venture interest is in Aliant ActiMedia.

Use of accounting estimates

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Our results could differ from estimates used in these financial statements.

Revenue recognition

We recognize operating revenues when they are earned, specifically, when services are provided, products are delivered to customers, persuasive evidence of an arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

For transactions involving more than one product or service we allocate revenue to each based on relative fair values.

For arrangements where subcontractors perform services for our customers, we recognize revenue based on the amounts billed to the customers when we act as the principal in the arrangement. When we act as the subcontractor, we recognize the net amount as revenue when we perform the service.

We defer payments received in advance until we provide the service or deliver the product to customers.

For fixed-price service contracts, we recognize revenue based on the extent of work accomplished using the percentage-of-completion method. Management estimates the percentage-of-completion by reference to actual performance in relation to contract milestones. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents

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

Transfer of receivables

Under a purchase and sale agreement we sell certain accounts receivable to a securitization trust. We record the sale when we surrender control over the transferred accounts receivable and receive proceeds from the trust. The gains or losses that result from these transactions and administration fees on the program are recognized as other income (expenses). The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest, based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable and credit loss ratios.

Inventory

We value inventory at the lower of cost and net realizable value.

Income taxes

We use the asset and liability method to account for income taxes. Under this method income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes compared with tax purposes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law or substantively enacted that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded to reduce future income tax assets to the amount more likely than not to be realized.

Capital investments

Capital investments are recorded at cost. We calculate depreciation on a straight-line basis over the useful lives of the assets as noted below:

Asset	Rate
Buildings and towers	10 – 40 years
Telecommunications facilities and equipment	4 – 40 years
Application software and other equipment	3 – 15 years

We capitalize contracted costs, labour and overhead related to our self-constructed assets, classified as plant under construction. We do not record depreciation on plant under construction that is not yet operational.

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

Deferred charges

Deferred charges mainly include:

- debt issue costs, which are amortized on a straight-line basis over the term of the related debt;
- cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts;
- Internet commissions, which are amortized over a defined customer relationship period; and
- our retained interest in accounts receivable transferred to a securitization trust, as described in note 2.

Goodwill

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

Derivative financial instruments

We use derivative financial instruments periodically in the management of our foreign currency and interest rate exposures. We do not use derivative financial instruments for trading or speculative purposes.

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

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

The following describes our policies for specific kinds of derivatives:

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

We use interest rate swap and swaption agreements in order to manage the interest rate exposure on our total debt obligations and related overall cost of borrowing. These agreements involve the periodic exchange of interest payments without exchanging the notional principal amount that the interest payments are based on. We record amounts payable or receivable under interest rate swap agreements as adjustments to interest expense. In addition, premiums we receive or pay, if any, under interest rate swaption agreements are amortized as an adjustment to interest expense over the period from receipt, or payment, of the premium to maturity of the underlying debt obligation.

Post employment benefits

We provide certain pension plans and non-pension post employment benefits to qualified employees. These include contributory defined contribution (DC) pension plans, non-contributory defined benefit (DB) pension plans based on the best five year average earnings for each year of service and other post-employment benefit (OPEB) plans such as life insurance and health care plans.

We accrue our obligations under employee benefit plans and related costs, net of the fair value of plan assets. We have adopted the following policies for our DB pension plans and OPEB plans:

- The cost of pensions and other post employment benefits earned by employees is actuarially determined using:
  - the projected benefit method, pro rated on years of service;
  - management's best estimate of expected plan investment performance, salary increases, retirement ages of employees and expected health care costs; and

- discount rates for the employee benefit plans that are selected in reference to current interest rates on long-term debt of high-quality corporate issuers. The expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given our policy asset mix. Over the past 10 years, our weighted average rate of return for our defined benefit pension plans was 8.7 per cent per annum.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years.
- We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment. This represents the period over which we expect to realize the benefit from the amendment.
- We use the corridor approach to recognize actuarial gains and losses into earnings. This involves deducting the greater of 10 per cent of the benefit obligation or the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees being 13 years at March 31, 2004 (December 31, 2003 – 13 years).
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

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

We are responsible for adequately funding our DB pension plans. We make required contributions to them as determined by actuarial valuations. These contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are currently updating our actuarial valuations for the year ended December 31, 2003, and expect these to be completed in the second quarter of 2004. These valuations could result in either lower or higher minimum required contributions to the DB pension plans than the $63.7 million that was identified in 2003. In addition, we can make special deficit funding contributions, which represent a voluntary acceleration of required funding. For the three months ended March 31, 2004, we made special deficit funding contributions of $25.0 million (March 31, 2003 – $nil).

DC pension plan costs are recognized as employees render services during the year.

Earnings per common share

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

Stock-based compensation plan

We have a stock-based compensation plan for executives and certain senior managers, which is described in note 16. For stock-based compensation awards granted after January 1, 2003, we record compensation expense upon issuance of stock options to employees calculated using the fair value method. Compensation expense recognition commences when stock options are issued, with full recognition equally over the vesting period, being three years. The expense to be amortized over the vesting period is determined using the Black-Scholes model.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

As permitted under the CICA accounting standard for Stock-Based Compensation and Other Stock-Based Payments, we do not record compensation expense upon issuance of stock options to employees under our own stock option plan for awards granted prior to January 1, 2003. However, as required by the standard, we are disclosing the pro-forma net income and pro-forma earnings per share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in note 15.

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

Asset retirement obligation

Effective January 1, 2004, we retroactively adopted the CICA handbook section 3110, Asset Retirement Obligations. This standard provides guidance on recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of long-lived assets. These obligations are initially measured at fair value and recorded in the year in which they are incurred and when a reasonable estimate of fair value can be made. The fair value is the amount at which the liability could be settled in a current transaction. The initial fair value estimate is subject to subsequent adjustments to reflect the passage of time and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized with the related asset and amortized into earnings over the asset's useful life. The adoption of this standard had no material impact on our financial position, results of operations or cash flows.

2 TRANSFER OF RECEIVABLES

Under a revolving purchase and sale agreement that came into effect on December 13, 2001, an interest in a pool of accounts receivable were sold to a securitization trust for net cash proceeds of $125.0 million as at March 31, 2004 (December 31, 2003 – $130.0 million). The agreement expires on December 13, 2006. During the first three months of 2004, the program was amended and the available facility has decreased from $150.0 million to $125.0 million.

As part of the agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the cash proceeds received, which is held and owned by the trust. This security is transferred back to us upon the expiry of the agreement and as such we have recorded these accounts receivable in deferred charges as a retained interest in the securitization trust. At March 31, 2004, this retained interest amounted to $39.0 million (December 31, 2003 – $28.7 million).

We continue to service these accounts receivable and collect the amounts owing, however the trust's interest in the collection of these accounts receivable, including receivables that make up the retained interest, ranks ahead of our interest. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

Under the agreement the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During this time, we remain exposed to certain risks of default that could cause the agreement to terminate early.

During the three months ended March 31, 2004, we recognized a pre-tax loss and administration fees of approximately $1.0 million (March 31, 2003 – $1.1 million) on the transfer of receivables.

2 TRANSFER OF RECEIVABLES *(continued)*

The table below shows the securitization as at March 31, 2004, and December 31, 2003, respectively, and the assumptions that were used in determining the fair value on the date of transfer, March 31, 2004, and December 31, 2003. The sensitivity of these assumptions to an immediate 10 to 20 per cent change is not material.

(thousands of dollars, except as otherwise noted)	Range 2004	**As at March 31, 2004**	As at December 31, 2003
Securitized interest in accounts receivable		**164,039**	158,726
Cash proceeds		**125,000**	130,000
Retained interest		**39,039**	28,726
Servicing liability		**382**	424
Average accounts receivable managed		**209,441**	209,796
Assumptions:			
Cost of funds	2.82 – 2.94%	**2.87%**	3.42%
Average delinquency ratio	13.3 – 15.3%	**14.1%**	11.9%
Average net credit loss ratio	0.97 – 1.18%	**1.08%**	1.08%
Weighted average life in days	41 – 42	**41**	42

The table below is a summary of certain cash flows received from and paid to the trusts during the year.

For the three months ended March 31 *(thousands of dollars)*	**2004**	2003
Collections reinvested in revolving sales	**484,330**	478,432
Decrease in sales proceeds	**5,000**	—

3 INCOME TAXES

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented in the following table:

(thousands of dollars)	**As at March 31, 2004**	As at December 31, 2003
Capital investments	**8,739**	3,884
Pension and post employment benefits	**(1,907)**	7,651
Deferred charges	**(11,890)**	(17,376)
Loss carryforwards	**7,008**	2,083
Other	**6,477**	12,852
Net future tax asset	**8,427**	9,094
Less: current portion of future tax asset (liability)	**2,434**	(3,797)
Future tax asset	**5,993**	12,891

3 INCOME TAXES *(continued)*

Significant components of the provision for income taxes are as follows:

For the three months ended March 31 *(thousands of dollars)*	**2004**	2003
Current tax expense	**26,118**	52,098
Future tax expense:		
Change in temporary differences	**(1,399)**	(27,293)
Change in statutory rate	**(180)**	(133)
Income tax expense	**24,539**	24,672

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

For the three months ended March 31	**2004**	2003
Statutory income tax rate (including surtax)	**35.85%**	40.31%
Federal large corporation tax	**1.67**	0.31
Tax rate change – future asset	**(0.44)**	(0.48)
Non-taxable gain	**(0.02)**	(0.08)
Non-deductible goodwill	**0.07**	—
Benefit of non-capital losses not recognized	**0.02**	—
Other permanent differences	**0.21**	(0.31)
Effective income tax rate	**37.36%**	39.75%

Tax losses

At March 31, 2004, we have accumulated $16.0 million (December 31, 2003 – $6.5 million) in non-capital tax losses that are available to reduce taxable income in future years. These losses will expire after 2010 if not used. The tax benefit of the non-capital losses has been recognized as part of the future tax asset.

We also have capital losses of approximately $35.2 million at March 31, 2004, (December 31, 2003 – $34.6 million) available to be carried forward indefinitely to reduce capital gains in future years. No future tax asset associated with $34.6 million of these losses has been recognized for financial reporting purposes.

4 CAPITAL INVESTMENTS

As at March 31, 2004 *(thousands of dollars)*	**Cost**	**Accumulated depreciation**	**Net book value**
Land	**13,557**	**—**	**13,557**
Buildings and towers	**353,659**	**172,082**	**181,577**
Telecommunications facilities and equipment	**4,390,101**	**2,857,963**	**1,532,138**
Application software and other equipment	**574,022**	**365,867**	**208,155**
Plant under construction	**56,147**	**—**	**56,147**
Materials and supplies	**5,500**	**—**	**5,500**
	5,392,986	**3,395,912**	**1,997,074**

4 CAPITAL INVESTMENTS *(continued)*

As at December 31, 2003 *(thousands of dollars)*	Cost	Accumulated depreciation	Net book value
Land	13,565	—	13,565
Buildings and towers	336,884	163,675	173,209
Telecommunications facilities and equipment	4,378,012	2,808,618	1,569,394
Application software and other equipment	592,589	363,564	229,025
Plant under construction	22,829	—	22,829
Materials and supplies	5,500	—	5,500
	5,349,379	3,335,857	2,013,522

5 ACCRUED BENEFIT ASSET (LIABILITY)

We provide pension and non-pension post employment benefits to most of our employees. These include DC pension plans, DB pension plans and OPEB plans. The significant policies adopted for these plans are discussed in note 1 under Post employment benefits.

DC pension plans

Our DC pension plans require company contributions between 4 per cent and 6 per cent and employee contributions between nil and 6 per cent of a member-employee's pensionable earnings. The total expense for the DC pension plans is equal to our required contributions and was $3.3 million for the three months ended March 31, 2004 (March 31, 2003 – $2.0 million).

DB pension plans

Our DB pension plans provide a pension to employees that reach 65 years of age at retirement with at least two years of service. This pension is equal to between 1 per cent and 1.5 per cent of the employee's best five year average earnings for each year of service. For example, 30 years of service at 1.5 per cent per year provides a pension equal to 45 per cent of the employee's best five-year average earnings. Also, for employees that retire before age 65 but meet other age plus service requirements either a reduced or unreduced pension may be payable. Pensions paid are subject to annual indexing with the Consumer Price Index up to a maximum of 2 per cent per year.

We have some DB pension plans that are registered under the Income Tax Act and are regulated by the Office of the Superintendent of Financial Institutions. We also have some DB pension arrangements for executives that are not registered plans. We are required to maintain funding levels of the registered plans by making contributions to a trust fund that is used to pay benefits under the plans. We fund the non-registered plans directly when the benefits under those plans are paid to retirees.

OPEB plans

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. We do not maintain a trust fund to pay for OPEBs, rather we pay the benefits directly to the plan carrier or to the retired employee as required.

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Assumptions

The measurement of the accrued benefit obligation and annual net benefit plans expense for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions which are used as inputs to the actuarial calculations. The key assumptions are:

	2004	2003
Rate used to discount the obligations	**6.75%**	6.75%
Expected return on plan assets	**7.50%**	7.50%
Rate of compensation increase	**3.50%**	3.50%
Growth rate of per capita health care costs, first 5 years	**8.00%**	8.00%
Growth rate of per capita health care costs, thereafter	**4.50%**	4.50%

Investment of DB pension plans assets

We have established a Master Trust to hold and invest the assets of the DB pension plans. The Master Trust follows an investment policy that includes the following asset mix. We have assumed a 7.5 per cent expected return on plan assets, which is based on the expected long-term returns for each asset class and their relative target weighting in the asset mix.

		Percentage of plan assets		Weighted average expected long-term
Asset category	Target weight	**March 31, 2004**	December 31, 2003	rate of return
Bonds / fixed income securities	35 – 45%	**40%**	40%	2.4%
Equity securities	55 – 65%	**60%**	60%	5.1%
Total				7.5%

The Master Trust is not permitted to directly own common shares or debt obligations of our company or our subsidiaries. The Master Trust does own units of index funds that may hold shares of Aliant or debt instruments of our subsidiaries by virtue of the fact that these securities are included in the relevant indices. The Master Trust does hold common shares of BCE Inc. worth approximately $4.0 million (less than 1 per cent of total plan assets) at March 31, 2004. Fixed income securities include BCE Inc. and Bell Canada debentures of approximately $6.6 million (less than 1 per cent of total plan assets) at March 31, 2004. The total value of all our securities and related issuers held directly or indirectly in the Master Trust at March 31, 2004, was approximately $11.7 million (0.9 per cent of plan assets) and at December 31, 2003, was approximately $15.0 million (1.2 per cent of plan assets).

Components of accrued benefit asset (liability)

The table below shows the change in DB pension plans and OPEB plans obligations and the change in the fair value of DB pension plans assets during the three months ended March 31, 2004, and the status of the plans as at December 31, 2003.

	DB pension plans		OPEB plans	
(thousands of dollars)	**March 31, 2004**	December 31, 2003	**March 31, 2004**	December 31, 2003
Plan obligations:				
Accrued benefit obligation, beginning of period	**1,496,455**	1,379,459	**161,376**	159,681
Cost of benefits earned in the period	**7,028**	24,753	**1,144**	4,431
Interest on the obligation	**24,777**	93,893	**2,725**	10,189
Actuarial (gains) losses	**—**	83,413	**—**	(8,914)
Benefits paid out of the plan	**(21,139)**	(85,063)	**(882)**	(4,011)
Accrued benefit obligation, end of period	**1,507,121**	1,496,455	**164,363**	161,376

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

	DB pension plans		OPEB plans	
(thousands of dollars)	**March 31, 2004**	December 31, 2003	**March 31, 2004**	December 31, 2003
Plan assets:				
Fair value of plan assets, beginning of period	**1,262,442**	1,081,830	**—**	—
Actual return on plan assets	**56,138**	140,986	**—**	—
Benefits paid out of the plan	**(21,139)**	(85,063)	**(882)**	(4,011)
Employer contributions to the plan	**16,040**	124,689	**882**	4,011
Fair value of plan assets, end of period	**1,313,481**	1,262,442	**—**	—
Plan deficit, end of period	**(193,640)**	(234,013)	**(164,363)**	(161,376)
Unamortized losses	**360,171**	397,453	**2,220**	2,220
Accrued benefit asset (liability), end of period	**166,531**	163,440	**(162,143)**	(159,156)

Each of the individual DB pension plans that make up the totals included in the table above have deficits where the accrued benefit obligation exceeds the fair value of plan assets. While the DB pension plans are not considered fully funded for financial reporting purposes, we are funding the registered DB pension plans in accordance with the applicable statutory funding rules and regulations governing the particular plans.

Components of DB pension plans and OPEB plans expense

The table below shows the components of the DB pension plans and OPEB plans expense.

For the three months ended March 31	DB pension plans		OPEB plans	
(thousands of dollars)	**2004**	2003	**2004**	2003
Cost of benefits earned in the period	**7,028**	6,188	**1,144**	1,108
Interest on the obligation	**24,777**	23,473	**2,725**	2,377
Expected return on plan assets	**(23,651)**	(22,890)	**—**	—
Amortization of net actuarial losses	**4,712**	1,404	**—**	—
Net benefit plans expense	**12,866**	8,175	**3,869**	3,485

The net benefit plans expense calculated above and recorded in operating expenses for the period reflects the amortization of actual gains and losses on plan assets and actuarial gains and losses on the plan obligations. If the net benefit plan expense was adjusted to include all gains and losses incurred in the plans during the period and exclude the amortization or other recognition of existing unamortized amounts, the expense would be as follows:

For the three months ended March 31	DB pension plans		OPEB plans	
(thousands of dollars)	**2004**	2003	**2004**	2003
Net benefit plans expense as calculated	**12,866**	8,175	**3,869**	3,485
Remove amortization of net actuarial losses	**(4,712)**	(1,404)	**—**	—
Remove expected return on plan assets	**23,651**	22,890	**—**	—
Actual (gain) loss on plan assets	**(56,138)**	57,810	**—**	—
Actuarial gain incurred	**—**	—	**—**	(8,914)
Adjusted net benefit plans (income) expense	**(24,333)**	87,471	**3,869**	(5,429)

5 ACCRUED BENEFIT ASSET (LIABILITY) *(continued)*

Sensitivity to changes in assumptions

The value of the accrued benefit obligation and the amount of net benefit plans expense for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The table below outlines the estimated impact on the value of the accrued benefit obligation and the annual amount of net benefit plans expense for a 0.25 percentage point change in the discount rate, the expected return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.00 percentage point change in the assumed growth in per capita health care costs. The impact on the quarterly expense would be approximately one-quarter of the indicated annual impact:

		Rate	**DB pension plans**		**OPEB plans**	
(thousands of dollars, rounded to millions)	**Assumption**	**change**	Obligation	Expense	Obligation	Expense
Discount rate	6.75%	+/- 0.25%	54,000	1,000	6,000	—
Expected return on plan assets	7.50%	+/- 0.25%	—	3,000	—	—
Rate of compensation increase	3.50%	+/- 0.25%	8,000	1,000	—	—
Growth in per capita health care costs	4.50 – 8.00%	+ 1.00%	—	—	27,000	3,000
		- 1.00%	—	—	(23,000)	(2,000)

The indicated impact of a 0.25 change in the discount rate on annual net benefit plans expense includes the impact on the interest expense and current service cost components of pension expense. In addition to these impacts, the amount of amortization of net actuarial losses would also change, however this change would depend on whether the 0.25 change was an increase in the discount rate or a decrease in the discount rate and would not extrapolate to other assumed changes in the discount rate. For reference, the amount of amortization of net actuarial losses would increase by approximately $4.0 million annually if the discount rate were to be reduced by 0.25 per cent to 6.50 per cent.

6 GOODWILL

(thousands of dollars)	**As at March 31, 2004**	As at December 31, 2003
Goodwill, at cost	**87,616**	87,616
Cumulative impairment provision	**(50,000)**	(50,000)
Accumulated amortization	**(5,812)**	(5,812)
	31,804	31,804

All goodwill relates to our Information Technology segment.

7 NOTES PAYABLE AND BANK ADVANCES

At March 31, 2004, we have $nil million (December 31, 2003 – $nil million) outstanding under our commercial paper program. We maintain lines of credit totalling $557.0 million (December 31, 2003 – $557.0 million) of which $350.0 million (December 31, 2003 – $350.0 million) are committed lines supporting our commercial paper program, $150.0 million (December 31, 2003 – $150.0 million) are uncommitted operating lines and $57.0 million (December 31, 2003 – $57.0 million) are operating lines of credit within our subsidiaries. At March 31, 2004, there was $9.1 million (December 31, 2003 – $17.8 million) outstanding on our subsidiaries' operating lines of credit.

8 RESTRUCTURING CHARGE

During the first quarter of 2004, we continued to execute our comprehensive restructuring plan of our Information Technology segment operations, which resulted in a provision of $1.2 million against earnings. The objective of the plan is to improve productivity and profitability, realign xwave's strategy and simplify its business model. Costs associated with the restructuring plan, the majority of which are severance and related benefits, but also include equipment lease cancellation penalties and real estate rationalization costs, are being charged against this provision. As at March 31, 2004, the balance of this year's and prior years' restructuring provision included in payables and accruals totalled $4.6 million. The remaining provision is expected to be drawn down during 2004.

In the first three months of 2004, we also executed a restructuring plan of the Telecommunications segment operations, which resulted in a provision of $1.9 million against earnings. This plan consists of a comprehensive restructuring of Innovatia's eLearning operations, and other costs associated with workforce reduction. Costs associated with the restructuring plan are largely severance and related benefits. The objective of this plan is also to improve productivity and profitability. As at March 31, 2004, the balance of this restructuring provision included in payables and accruals totalled $0.6 million, and is expected to be drawn down during 2004.

9 LONG-TERM DEBT

(thousands of dollars)	Interest rate	Maturity	**As at March 31, 2004**	As at December 31, 2003
Telecommunications				
Notes				
Aliant Telecom Inc.				
Series 1	6.46%	2004	**100,000**	100,000
Series 2	6.65%	2009	**100,000**	100,000
Series 3	6.70%	2005	**150,000**	150,000
Series 4	6.80%	2011	**150,000**	150,000
Series 5	5.35%	2007	**100,000**	100,000
			600,000	600,000
Bonds				
Maritime Tel & Tel Limited				
AD	10.45%	2013	**50,000**	50,000
Island Telecom Inc.				
T	10.60%	2009	**3,500**	3,500
U	11.15%	2010	**6,500**	6,500
V	9.77%	2018	**5,000**	5,000
W	8.76%	2019	**5,000**	5,000
NewTel Communications Inc.				
T	10.75%	2014	**75,000**	75,000
V	11.40%	2010	**40,000**	40,000
			185,000	185,000

9 LONG-TERM DEBT *(continued)*

(thousands of dollars)	Interest rate	Maturity	**As at March 31, 2004**	As at December 31, 2003
Telecommunications *(continued)*				
Debentures				
Maritime Tel & Tel Limited				
Series 2	8.30%	2019	**50,000**	50,000
Series 4	9.70%	2019	**50,000**	50,000
Series 5	9.05%	2025	**60,000**	60,000
NBTel Inc.				
AA	11.13%	2013	**40,000**	40,000
			200,000	200,000
			985,000	985,000
Present value of obligations under capital leases			**4,472**	4,746
Total – Telecommunications			**989,472**	989,746
Information Technology		2005	**313**	313
Total long-term debt			**989,785**	990,059
Less: Portion due within one year			**101,510**	101,535
			888,275	888,524

Telecommunications

All bonds are issued in series and are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The bonds are secured by deeds of trust and mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon certain real and immovable property and equipment of Aliant Telecom Inc., and a floating charge on certain other property of Aliant Telecom Inc., both present and future.

All debentures and notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The debentures and notes are issued under trust indentures and are unsecured.

The aggregate amount of payments required in each of the next five years to meet principal repayments and maturities of our long-term debt and the future minimum lease payments under capital leases presently outstanding is as follows:

(thousands of dollars)	**Remainder of 2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**
Long-term debt	100,138	150,175	—	100,000	—	635,000
Capital leases	1,372	1,300	1,800	—	—	—
	101,510	151,475	1,800	100,000	—	635,000

10 NON-CONTROLLING INTEREST

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

(thousands of dollars)	**As at March 31, 2004**	As at December 31, 2003
TechKnowledge Inc.	**114**	583
Atlantic Mobility Products Ltd.	**3,934**	3,468
	4,048	4,051

11 CAPITAL STOCK

Authorized

Unlimited number of preference shares, cumulative, redeemable at the price of $25.00 per share and with a fixed annual dividend rate of $1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at our option on June 30, 2006, or on June 30 of each fifth year thereafter. Preference shareholders (series 2) may convert series 2 preference shares to series 3 shares on June 30, 2006, or on June 30 each fifth year thereafter, provided that we have not delivered a notice of redemption.

Unlimited number of common shares, without par value.

Issued

	As at March 31, 2004		As at December 31, 2003	
(thousands of dollars)	**Number of shares**	**Value**	Number of shares	Value
Preference shares, series 2	**7,000,000**	**172,264**	7,000,000	172,264
Common shares	**133,087,013**	**1,033,265**	133,616,920	1,035,798
		1,205,529		1,208,062

The following table provides the details of the change in the issued common shares:

	As at March 31, 2004		As at December 31, 2003	
(thousands of dollars)	**Number of shares**	**Value**	Number of shares	Value
Common shares, beginning of period	**133,616,920**	**1,035,798**	139,513,639	1,070,551
Stock option plan (note 16)	**33,432**	**591**	434,132	8,629
Common shareholder dividend reinvestment and stock purchase plan	**52,777**	**1,621**	197,719	5,927
Shares purchased for cancellation	**(616,116)**	**(4,745)**	(6,528,570)	(49,309)
Common shares, end of period	**133,087,013**	**1,033,265**	133,616,920	1,035,798

Common shares are purchased on the open market for participants in our employees' stock savings plan. Refer to note 16 for details of this plan.

Under the provisions of our common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash. During the three months ended March 31, 2004, we issued shares in relation to the common shareholder dividend reinvestment and stock purchase plan as well as the employees' stock savings plan in lieu of paying cash dividends in the amount of $2.3 million (March 31, 2003 – $2.2 million).

11 CAPITAL STOCK *(continued)*

Under a normal course issuer bid, which commenced July 22, 2002, and ended July 21, 2003, we acquired, from time to time, our common shares at the market price with cash through the facilities of the Toronto Stock Exchange. We purchased and cancelled all of the allowable 1,600,000 shares as of June 2003, of which 1,335,700 shares were purchased in 2003.

On July 30, 2003, we announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 6,925,000 of our outstanding common shares on the Toronto Stock Exchange, representing approximately 5.0 per cent of our issued and outstanding common shares as of that date, being 138,517,283 common shares. Under this normal course issuer bid, we would acquire, from time to time, our common shares at the market price with cash through the facilities of the Toronto Stock Exchange. Bell Canada, our majority shareholder, will sell shares into the normal course issuer bid on a pro-rata basis and the Toronto Stock Exchange has granted an exemption to permit us to make purchases from Bell Canada on that basis. Purchases of common shares may be made during the twelve-month period commencing August 6, 2003, and ending on August 5, 2004. As of March 31, 2004, 5,808,986 shares (Bell Canada shares purchased – 2,940,686) were purchased for cancellation under this bid, of which 5,192,870 shares were purchased in 2003 (Bell Canada shares purchased – 2,643,070).

For the three months ended, March 31, 2004, we purchased for cancellation 616,116 shares (December 31, 2003 – 6,528,570) for an aggregate price of $19.6 million (December 31, 2003 – $200.9 million) which reduced capital stock by $4.7 million (December 31, 2003 – $49.3 million), contributed surplus by $nil million (December 31, 2003 – $64.2 million) and retained earnings by $14.9 million (December 31, 2003 – $87.4 million).

12 SEGMENTED INFORMATION

We operate through two reportable segments:

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

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

The accounting policies of the segments are the same as those described in note 1. We evaluate performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

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

The Remote Communications and Emerging Business segments were divested of during 2003 and are included in prior year discontinued operations as discussed in note 14.

12 SEGMENTED INFORMATION *(continued)*

For the three months ended March 31, 2004

(thousands of dollars)	**Telecommunications**	**Information Technology**	**All others**	**Eliminations**	**Consolidated**
Revenue from external customers	**430,508**	**73,754**	**180**	**—**	**504,442**
Intersegment revenue	**2,124**	**24,711**	**—**	**(26,835)**	**—**
Operating revenues	**432,632**	**98,465**	**180**	**(26,835)**	**504,442**
Operating expenses	**247,079**	**92,217**	**5,715**	**(26,508)**	**318,503**
Depreciation and amortization	**99,339**	**2,319**	**305**	**(1,004)**	**100,959**
Restructuring charge	**1,921**	**1,162**	**—**	**—**	**3,083**
Other income (expenses)	**3,638**	**30**	**44,839**	**(45,497)**	**3,010**
Interest charges	**18,946**	**463**	**1,410**	**(1,597)**	**19,222**
Income taxes (recovery)	**25,411**	**992**	**(2,168)**	**304**	**24,539**
Non-controlling interest	**465**	**1**	**—**	**—**	**466**
Net income (loss) from continuing operations	**43,109**	**1,341**	**39,757**	**(43,527)**	**40,680**
Net income from discontinued operations	**—**	**—**	**—**	**—**	**—**
Net income (loss)	**43,109**	**1,341**	**39,757**	**(43,527)**	**40,680**
Total assets	**2,720,675**	**169,984**	**1,894,429**	**(1,800,888)**	**2,984,200**
Capital investments	**84,403**	**357**	**36**	**—**	**84,796**

For the three months ended March 31, 2003

(thousands of dollars)	Telecommunications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	426,461	74,344	84	—	500,889
Intersegment revenue	3,400	28,680	—	(32,080)	—
Operating revenues	429,861	103,024	84	(32,080)	500,889
Operating expenses	242,140	104,559	5,498	(32,770)	319,427
Depreciation and amortization	96,108	2,784	188	(890)	98,190
Restructuring charge	—	—	—	—	—
Other income (expenses)	(446)	(93)	41,955	(41,680)	(264)
Interest charges	20,812	633	1,643	(2,145)	20,943
Income taxes (recovery)	27,573	(1,713)	(976)	(212)	24,672
Non-controlling interest	(44)	(63)	—	—	(107)
Net income (loss) from continuing operations	42,826	(3,269)	35,686	(37,743)	37,500
Net income (loss) from discontinued operations	(165)	—	1,553	—	1,388
Net income (loss)	42,661	(3,269)	37,239	(37,743)	38,888
Total assets	2,738,984	204,973	2,764,765	(2,109,795)	3,598,927
Capital investments	69,791	507	338	—	70,636

12 SEGMENTED INFORMATION *(continued)*

Revenue from external customers by product and service:

For the three months ended March 31 *(thousands of dollars)*	**2004**	2003
Telecommunications		
Local	**188,257**	190,029
Long distance	**89,973**	97,404
Wireless	**86,549**	73,161
Other telecommunications	**65,729**	65,867
	430,508	426,461
Information Technology		
Fulfillment	**40,977**	42,533
IT services	**32,777**	31,811
	73,754	74,344
Other	**180**	84
	504,442	500,889

13 OTHER INCOME (EXPENSES)

For the three months ended March 31 *(thousands of dollars)*	**2004**	2003
Interest income	**7,111**	3,122
Accounts receivable securitization	**(976)**	(1,074)
Provincial large corporation tax	**(1,896)**	(1,160)
Miscellaneous charges	**(1,229)**	(1,152)
	3,010	(264)

14 DISCONTINUED OPERATIONS

Effective January 1, 2003, Innovatia Inc., which was previously reported under the Emerging Business segment, was transferred to the Telecommunications segment. The remaining assets of the Emerging Business segment and other investments were disposed of throughout the rest of 2003.

In December 2003, the sale of the Remote Communications segment, as represented by our 53.2 per cent ownership in Stratos Global Corporation, was completed.

For reporting purposes, the prior period results of operations of the Emerging Business and Remote Communications segments are presented as discontinued operations, including segmented information as disclosed in note 12.

14 DISCONTINUED OPERATIONS *(continued)*

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

For the three months ended March 31 *(thousands of dollars)*	**2004**	2003
Operating revenues	—	156,370
Operating expenses	—	137,485
Other expense	—	2,273
Interest on long-term debt	—	6,381
Income tax	—	3,992
Non-controlling interest	—	4,851
Net income from discontinued operations	—	1,388

15 EARNINGS PER COMMON SHARE

For the three months ended March 31 *(thousands of dollars except per share amounts)*	**2004**	2003
Net income applicable to common shares:		
Net income from continuing operations	**40,680**	37,500
Preferred share dividends	**(2,384)**	(2,384)
Net income applicable to common shares from continuing operations	**38,296**	35,116
Net income from discontinued operations	—	1,388
Net income applicable to common shares	**38,296**	36,504
Basic:		
Weighted average number of common shares outstanding	**133,404**	139,256
Basic earnings per common share from continuing operations	**0.29**	0.25
Basic earnings per common share from discontinued operations	—	0.01
Basic earnings per common share	**0.29**	0.26
Diluted:		
Weighted average number of common shares outstanding	**133,404**	139,256
Impact of outstanding stock options	**109**	—
	133,513	139,256
Diluted earnings per common share from continuing operations	**0.29**	0.25
Diluted earnings per common share from discontinued operations	—	0.01
Diluted earnings per common share	**0.29**	0.26

The impact of outstanding stock options represents common shares issuable under the terms of our stock option plans that have a weighted average exercise price that is lower than the average market value during the period. At March 31, 2003, there was no impact as the options would not have been exercised because their weighted average exercise price was greater than the average market value during the period. Refer to note 16 for details of our stock option plan.

The following table presents pro-forma net income and basic and diluted earnings per share using the fair market value method of accounting for stock-based compensation. The pro-forma adjustments presented below represent compensation expense on new awards granted since adoption of the new stock-based compensation standards on January 1, 2002, excluding those granted in 2003 and 2004 for which compensation expense was recorded as described in note 1.

15 EARNINGS PER COMMON SHARE *(continued)*

For the three months ended March 31

(thousands of dollars except per share amounts)	**2004**	2003
Pro-forma net income applicable to common shares:		
Net income from continuing operations	**40,680**	37,500
Pro-forma adjustments	**(310)**	(456)
Pro-forma net income from continuing operations	**40,370**	37,044
Preferred share dividends	**(2,384)**	(2,384)
Pro-forma net income applicable to common shares from continuing operations	**37,986**	34,660
Net income from discontinued operations	**—**	1,388
Pro-forma net income applicable to common shares	**37,986**	36,048
Basic:		
Weighted average number of common shares outstanding	**133,404**	139,256
Pro-forma basic earnings per common share from continuing operations	**0.28**	0.25
Pro-forma basic earnings per common share from discontinued operations	**—**	0.01
Pro-forma basic earnings per common share	**0.28**	0.26
Diluted:		
Weighted average number of common shares outstanding	**133,404**	139,256
Impact of outstanding stock options	**109**	—
	133,513	139,256
Pro-forma diluted earnings per common share from continuing operations	**0.28**	0.25
Pro-forma diluted earnings per common share from discontinued operations	**—**	0.01
Pro-forma diluted earnings per common share	**0.28**	0.26

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

March 31	**2004**	2003
Dividend yield	**3.76%**	3.41%
Expected volatility	**22.40%**	25.30%
Risk-free interest rate	**4.18%**	4.33%
Expected lives	**5.7 years**	6.7 years

16 STOCK-BASED COMPENSATION PLANS

At March 31, 2004, we had the following stock-based compensation plans.

Stock option plan

Under the stock option plan, we may grant stock options to plan members for up to 6,867,104 shares of common stock, of which 2,709,246 options for the same number of common shares were outstanding as at March 31, 2004 (December 31, 2003 – 2,338,367). The exercise price of each option equals the market price of our common shares on the date of grant. The right to exercise the options vests or accrues evenly over three years from the date they are granted under the plan and can be exercised for a period of up to 10 years from the date of grant.

16 STOCK-BASED COMPENSATION PLANS *(continued)*

A summary of the status of our stock option plan as of March 31, 2004, and December 31, 2003, and changes during the periods ended on those dates is presented below:

	As at March 31, 2004		As at December 31, 2003	
	Number of shares	**Weighted average exercise price**	Number of shares	Weighted average exercise price
Options outstanding at beginning of period	**2,338,367**	**30.06**	2,680,450	28.94
Granted	**432,621**	**32.39**	289,138	26.84
Forfeited	**(28,310)**	**31.81**	(197,089)	32.59
Exercised	**(33,432)**	**17.69**	(434,132)	19.88
Options outstanding at end of period	**2,709,246**	**30.56**	2,338,367	30.06
Options exercisable at end of period	**1,895,514**	**30.68**	1,595,257	30.48

The following table summarizes information about stock options outstanding at March 31, 2004:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price
11.746 to 15.718	68,289	2.6	14.16	68,289	14.16
17.557 to 20.079	84,605	3.8	19.97	84,605	19.97
21.768 to 25.552	161,193	4.8	23.03	161,193	23.03
26.790 to 34.900	1,917,585	8.2	31.04	1,103,853	31.58
35.250 to 38.100	477,574	6.8	35.42	477,574	35.42
	2,709,246		30.56	1,895,514	30.68

We expect that approximately 95 per cent of the non-vested awards at March 31, 2004, will eventually vest.

Employees' stock savings plan

Under the employees' stock savings plan, we are authorized to issue up to 3,500,000 common shares to our full-time employees, nearly all of whom are eligible to participate. Over 80 per cent of eligible employees are participating in the plan.

Under the terms of the plan, employees can choose each year to have up to 10 per cent of their annual base earnings withheld to purchase our common stock. We will also contribute to the plan on behalf of participants based upon the employees' contributions using a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on the Toronto Stock Exchange on the last five days up to, and including, the dividend payment date. Participants in the plan purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

Common shares are purchased on the open market for participants in the plan. The total number of common shares bought for employees during the three months ended March 31, 2004 was 310,074 (December 31, 2003, – 360,044).

17 FINANCIAL INSTRUMENTS

Risk management

Periodically, we use interest rate swaps and swaptions, forward contracts and forward rate agreements to manage our exposure to interest rate risk and foreign currency risk associated with our long-term debt. The terms of these derivative contracts generally 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. 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. Refer to notes 1 and 2 for details on the transfer of receivables.

Currency exposures

We have no principal amounts outstanding under cross-currency forward contracts or forward rate agreements.

Interest rate exposures

Our long-term debt consists of both floating and fixed interest rate financing, and is therefore subject to risks associated with fluctuating interest rates. In order to manage this risk, we had the following derivative instruments outstanding at March 31, 2004:

- Interest rate swap – We have entered into, for hedging purposes, an interest rate swap transaction with a notional amount at March 31, 2004, of $100.0 million (December 31, 2003 – $100.0 million) expiring on May 11, 2011. The swap transaction involves us exchanging our underlying fixed interest rate of 6.80 per cent per annum for a three-month Bankers' Acceptance floating interest rate plus 2.06 per cent.

- Interest rate swaption – We have also entered into two swaption transactions related to two outstanding issues of long-term debt with a total notional amount at March 31, 2004, of $90.0 million (December 31, 2003 – $90.0 million). The swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with us on the call dates of the two underlying debt instruments. If exercised, these swaptions will involve us paying the underlying fixed interest rates on the debt instruments of 10.45 per cent and 11.125 per cent, respectively, in exchange for receiving the three-month Bankers' Acceptance floating rate from the call dates in 2006 until maturity in 2013. In exchange for providing the counterparty with these options, we received payments from the counterparty of $7.6 million in 2001 and $5.4 million in 1997. The remaining unamortized premium income as at March 31, 2004, of $9.2 million ($9.4 million – December 31, 2003) is recorded as a deferred credit. This premium income is being amortized against interest expense over the period to maturity of the underlying debt issues.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. We base fair values on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. As a result, due to the use of subjective judgment and uncertainties, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

17 FINANCIAL INSTRUMENTS *(continued)*

At March 31, 2004, and December 31, 2003, the carrying value of all financial instruments approximates fair value with the exception of the following:

	As at March 31, 2004		As at December 31, 2003	
(thousands of dollars)	**Carrying value**	**Fair value**	Carrying value	Fair value
Long-term debt	**989,900**	**1,205,200**	990,100	1,173,600
Derivative financial instruments, net liability position	**(9,200)**	**(24,000)**	(9,400)	(24,700)

18 COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments for the next five years are as follows:

(thousands of dollars)	**Remainder of 2004**	**2005**	**2006**	**2007**	**2008**	**Thereafter**
Operating leases	20,638	27,490	27,475	27,653	27,733	162,701
Purchase commitments	42,267	41,020	17,373	10,574	6,109	15,943
	62,905	68,510	44,848	38,227	33,842	178,644

Purchase commitments primarily relate to various information systems and technology agreements as well as costs for wireless billing.

19 RELATED PARTY TRANSACTIONS

Bell Canada beneficially owns and controls 53.48 per cent (December 31, 2003 – 53.50 per cent) of our outstanding common shares as at March 31, 2004.

In the normal course of business, we had transactions with related parties as follows:

Transactions with controlled investees of Bell Canada

For the three months ended March 31

(thousands of dollars)	**2004**	2003
Purchases of telecommunications and other services	**19,290**	16,053
Provisions of telecommunications services	**22,804**	19,934
Purchases of capital investments	**833**	827

Shares repurchased from controlled investees of Bell Canada

(thousands of dollars, except as otherwise noted)	**Three months ended March 31 2004**	Twelve months ended December 31 2003
Shares purchased for cancellation	**297,616**	2,643,070
Value	**9,498,700**	83,387,516

Refer to note 11 for details of the normal course issuer bid.

19 RELATED PARTY TRANSACTIONS *(continued)*

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The balances due to and due from affiliates are non-interest bearing and under normal credit terms and have arisen from the sales of products and provision of services referred to above.

Balances with controlled investees of Bell Canada

(thousands of dollars)	**As at March 31, 2004**	As at December 31, 2003
Accounts receivable	**24,953**	13,792
Payables and accruals	**9,390**	8,579

20 JOINT VENTURES

We hold an 87.14 per cent partnership interest in the joint venture Aliant ActiMedia.

The effect of proportionate consolidation of the joint venture on our consolidated financial statements is summarized as follows:

For the three months ended March 31

(thousands of dollars)	**2004**	2003
Consolidated statements of income		
Operating revenues	**1,792**	1,763
Expenses	**2,318**	2,286
Operating income	**(526)**	(523)
Consolidated balance sheets		
Current assets	**24,151**	24,359
Long-term assets	**315**	282
Current liabilities	**4,911**	3,878
Net investment	**19,555**	20,763
Consolidated statements of cash flows		
Operating activities	**118**	869
Investing activities	**(47)**	(22)
Net cash flow	**71**	847

21 CONTINGENCIES

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

(b) We have had an action commenced against us by Exigen Ltd. ("Exigen") in the State of California. 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. 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. The outcome of this matter is not determinable at this time.

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

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

We await clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features. We have not recognized the deferral account as a liability in our financial statements because in addition to awaiting clarification, we have made a proposal to the CRTC to approve reductions to the deferral account by means other than rebates or rate reductions. Given the circumstances outlined we estimate the deferral account balance could be between $nil and $29.0 million (December 31, 2003 – $nil and $24.0 million). A liability, should one arise, will be charged to operating income or capital as appropriate.

22 COMPARATIVE FIGURES

The comparative financial information has been reclassified to conform to the presentation adopted for 2004.

Owning AIT

STOCK EXCHANGE AND TRADING SYMBOLS

Toronto Stock Exchange	*Trading symbol*
Common shares	AIT
Preferred shares	AIT.PR.A

IMPORTANT DATES

Common share dividends for 2004 *(subject to approval by the board of directors)*

Record dates	*Payment dates*
March 15	March 30
June 15	June 30
September 15	September 30
December 15	December 30

Earnings release dates for 2004 *(subject to change)*

	Release dates
Quarter 1	April 29
Quarter 2	July 29
Quarter 3	October 28
Quarter 4	January 27, 2005

SHAREHOLDER SERVICES

CIBC Mellon Trust, our transfer agent, provides additional information about the following services on its website: www.cibcmellon.com/investor.

Direct deposit of dividends

Registered common shareholders can have dividends directly deposited, electronically, into their bank account *(in Canada only)*.

Dividend reinvestment and share purchase plan

Registered shareholders can reinvest their dividends, automatically and without fees, in additional shares of the Company. Also, up to $10,000 in Company shares can be purchased each quarter with optional cash payments without commissions or service charges.

E-services

On-line account inquiry

Registered shareholders can access their account information on the Internet, any time.

Electronic distribution of reports

Registered shareholders can obtain investor information and reports electronically rather than through the mail.

E-voting

Registered shareholders can submit their proxy for the 2004 annual meeting electronically. Visit www.eproxyvoting.com/aliant.

WE'RE HERE TO HELP

Contact our transfer agent, CIBC Mellon Trust Company, for information about:

- Dividend payments
- Change of address
- Exchanging shares
- Replacing lost certificates
- Dividend reinvestment and stock purchase plan
- E-services
- Tax forms
- Estate requirements

CIBC Mellon Trust Company Investor Correspondence

PO Box 7010
Adelaide Street Postal Station
Toronto ON M5C 2W9

Phone: 1.800.387.0825 *(toll free in Canada and U.S.)*
E-mail: inquiries@cibcmellon.com
Website: www.cibcmellon.com

Our corporate website, www.aliant.ca, allows shareholders to view reports, the latest company news and information.

Contact Investor Relations for further information about:

- Additional financial or statistical information
- Industry and company developments
- Shareholder history for predecessor companies
- Annual Information Form

Aliant Investor Relations

PO Box 880
Halifax NS B3J 2W3

Phone: 1.877.248.3113
Fax: 1.877.498.2464
E-mail: investor.relations@aliant.ca
Website: www.aliant.ca

BOND TRUSTEE, REGISTRAR AND TRANSFER AGENT

Computershare Investor Services and CIBC Mellon Trust Company

SHAREHOLDER INFORMATION

In simple terms

1xRTT
One times radio transmission technology (1xRTT) is the next generation of wireless data technology, which offers customers improved graphics, faster Internet connection speed, and quick and convenient access to e-mail and information.

High-speed Internet (Broadband)
The volume of information that can be transmitted through a cable or fibre at any one time is measured in bandwidth. Broadband has the capability to carry large amounts of information enabling us to deliver new products and services to our customers.

ILEC
An incumbent local exchange carrier or ILEC is a telephone company that held the local monopoly on telephone service before the introduction of local competition.

Text messaging
A whole new way to communicate, text messaging service lets subscribers send and receive short text messages from their digital two-way text-capable cell phone. Text messages are perfect for complete, unobtrusive communications – at the movies or a concert, in a meeting or at a hockey game.

VoIP
Voice over Internet Protocol (VoIP) enables the transport of voice, data, and video applications on a common IP network so that users can communicate and collaborate with one another from anywhere, at any time, using a variety of communications devices. VoIP allows service providers to deliver to businesses and consumers advanced multimedia applications and IP-based voice services, which dramatically enhance their communications experience.

Wi-Fi
We offer wireless Internet access zones, commonly known as Wi-Fi or wireless fidelity zones. These zones provide a convenient option to access the Internet, e-mail and corporate networks in public locations without the need for a physical connection.

Credits: Design, editorial support and production: Eastwood & Associates Inc. Please recycle this report.

Simple is better

Taking care of the day-to-day things in life often leaves our customers with little time to think about communications. That's why we work hard to make our services simple.

To us, simple means more than phones that are easy to use. It also means service options that are easy to understand. And customer service centres, real and virtual, that are convenient and simple to access.

Simple also means a single focus. Ours is providing communications services for the people of Atlantic Canada.

Is simple better? We think so.

Aliant Inc.
Phone: 1.877.248.3113
E-mail: investor.relations@aliant.ca
Website: www.aliant.ca

here. for you.™