

ALIANTE INC.
Notes to the consolidated financial statements
(unaudited)
March 31, 2004

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.

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1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (continued)

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.

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.

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1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments (continued)

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post employment benefits (continued)

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.

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1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post employment benefits (continued)

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 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.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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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.

| <i>(thousands of dollars, except as otherwise noted)</i> | 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 <i>(thousands of dollars)</i> | 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.

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3. INCOME TAXES (Continued)

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:

| <i>(thousands of dollars)</i> | 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 |

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

| For the three months ended March 31 <i>(thousands of dollars)</i> | 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 % |

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3. INCOME TAXES (Continued)

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 <i>(thousands of dollars)</i> | 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 |

| As at December 31, 2003 <i>(thousands of dollars)</i> | 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.

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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.

| Asset category | Target weight | Percentage of plan assets | | Weighted average expected long-term rate of return |
|---------------------------------|----------------------|----------------------------------|-------------------------|---|
| | | March 31 2004 | December 31 2003 | |
| 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).

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5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

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 | |
|--|------------------|---------------------|------------------|---------------------|
| | March 31 2004 | December 31 2003 | March 31 2004 | December 31 2003 |
| <i>(thousands of dollars)</i> | | | | |
| 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 |
| 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.

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5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

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 <i>(thousands of dollars)</i> | DB pension plans | | OPEB plans | |
|--|------------------|----------|------------|----------|
| | 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 <i>(thousands of dollars)</i> | DB Pension plans | | OPEB plans | |
|--|------------------|-----------|------------|------------|
| | 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) |

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:

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5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

Sensitivity to changes in assumptions (continued)

| <i>(thousands of dollars, rounded to millions)</i> | Assumption | Rate change | DB pension plans | | OPEB plans | |
|--|-------------------|--------------------|-------------------------|----------|-------------------|------------|
| | | | 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

| <i>(thousands of dollars)</i> | As at March 31, | | As at December 31, | |
|---------------------------------|------------------------|----------|---------------------------|----------|
| | 2004 | | 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.

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9. LONG-TERM DEBT

| <i>(thousands of dollars)</i> | Interest rate | Maturity | As at March 31, 2004 | As at December 31, 2003 |
|---|---------------|----------|-------------------------|----------------------------|
| <i>Telecommunications</i> | | | | |
| 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 |
| 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 |
| <i>Information Technology</i> | | | | |
| | | 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 |

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9. LONG-TERM DEBT (Continued)

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:

| | Remainder of | | | | | |
|-------------------------------|---------------------|-------------------|-----------------|-------------------|-------------|-------------------|
| <i>(thousands of dollars)</i> | 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.

| <i>(thousands of dollars)</i> | 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.

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11. CAPITAL STOCK (Continued)

Unlimited number of common shares, without par value.

| <i>Issued</i> <i>(thousands of dollars)</i> | As at March 31, 2004 | | As at December 31, 2003 | |
|--|-------------------------|--------------|----------------------------|--------------|
| | 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:

| <i>(thousands of dollars)</i> | As at March 31, 2004 | | As at December 31, 2003 | |
|---|-------------------------|--------------|----------------------------|--------------|
| | 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).

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.

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11. CAPITAL STOCK (Continued)

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.

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12. SEGMENTED INFORMATION (Continued)

| For the three months ended March 31, 2004 <i>(thousands of dollars)</i> | Telecom- munications | 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 <i>(thousands of dollars)</i> | Telecom- munications | 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 |

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12. SEGMENTED INFORMATION (Continued)

Revenue from external customers by product and service:

| For the three months ended March 31 | | | |
|-------------------------------------|----|----------------|-------------|
| <i>(thousands of dollars)</i> | | 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 | | | |
|-------------------------------------|----|----------------|-------------|
| <i>(thousands of dollars)</i> | | 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.

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14. DISCONTINUED OPERATIONS (Continued)

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

| For the three months ended March 31 | | | | |
|---|------|---|------|---------|
| <i>(thousands of dollars)</i> | | | | |
| | 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 | | | | |
|---|------|---------|------|---------|
| <i>(thousands of dollars except per share amounts)</i> | | | | |
| | 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 |

15. EARNINGS PER COMMON SHARE (Continued)

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.

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15. EARNINGS PER COMMON SHARE (Continued)

| For the three months ended March 31 | | |
|---|----------------|-------------|
| <i>(thousands of dollars except per share amounts)</i> | | |
| | 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 |

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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.

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:

| Range of exercise prices | Options outstanding | | | Options exercisable | |
|-----------------------------|-----------------------|---|--|-----------------------|--|
| | Number outstanding | Weighted- average remaining contractual life in years | Weighted- average exercise price | Number exercisable | Weighted- average exercise price |
| \$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.

16. STOCK-BASED COMPENSATION PLANS (Continued)

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.

17. FINANCIAL INSTRUMENTS (Continued)

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 judgement and uncertainties, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

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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:

| <i>(thousands of dollars)</i> | As at March 31, 2004 | | As at December 31, 2003 | |
|---|----------------------|--------------|-------------------------|--------------|
| | 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:

| <i>(thousands of dollars)</i> | 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 | | 2004 | | 2003 | |
|--|----|--------|----|--------|--|
| <i>(thousands of dollars)</i> | | | | | |
| Purchases of telecommunications and other services | \$ | 19,290 | \$ | 16,053 | |
| Provisions of telecommunications services | \$ | 22,804 | \$ | 19,934 | |
| Purchases of capital investments | \$ | 833 | \$ | 827 | |

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19. RELATED PARTY TRANSACTIONS (Continued)

Shares repurchased from controlled investees of Bell Canada

| <i>(thousands of dollars)</i> | 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.

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

| <i>(thousands of dollars)</i> | As at March 31 2004 | As at December 31 2003 |
|-------------------------------|--------------------------------|-----------------------------------|
| Accounts receivable | \$ 24,953 | \$ 13,792 |
| Payables and accruals | \$ 9,390 | \$ 8,579 |

During the three months ended March 31, 2004, we purchased \$5.1 million of medium term notes that bear interest at 2.46 per cent and mature in October, 2004.

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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.

21. CONTINGENCIES (Continued)

- (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.