



**ALIAN T INC.**

**1999 ANNUAL INFORMATION FORM**

**April 14, 2000**

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## **ITEM 1 INCORPORATION**

### **Incorporation of Aliant Inc.**

Aliant Inc. (“Aliant” or “the Corporation”) was incorporated on March 9, 1999 as 3595641 Canada Inc. under the *Canada Business Corporations Act*. The Corporation was formed for the purpose of participating in a series of transactions which resulted in the combination of the businesses previously operated by Bruncor Inc. (“Bruncor”), Island Telecom Inc. (“Island Tel”), Maritime Telegraph and Telephone Company, Limited (“Maritime Tel”) and NewTel Enterprises Limited (“NewTel”) (collectively referred to as the “Combining Companies”). The Corporation is engaged, through its subsidiaries, in four core lines of business: telecommunications, information technology, mobile satellite communications and emerging business. Further information on the creation of Aliant Inc. is set out in the summary of the Joint Management Information Circular issued by the four companies and dated April 12, 1999, on pages 1 through 8, which is incorporated by reference in this document.

The registered office of the Corporation is at 69 Belvedere Avenue, Charlottetown, Prince Edward Island.

### **Subsidiaries**

Aliant Telecom Inc. (“Aliant Telecom”) was incorporated on August 4, 1999 under the *Canada Business Corporations Act*. Its registered office is at Suite 1100, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2.

The information technology business is operated by Aliant Information Technology Inc. (“Aliant IT”). Aliant IT was incorporated on August 4, under the *Canada Business Corporations Act*. Its registered office is at Suite 1100, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2.

Mobile satellite communications are operated by Stratos Global Corporation (“Stratos”). Stratos was amalgamated under the *Corporations Act* (Newfoundland) by certificate of amalgamation dated October 31, 1989 and continued under the *Canada Business Corporations Act* by certificate of continuance dated May 28, 1996.

The emerging businesses segment is carried on by Aliant Horizons Inc. (“Aliant Horizons”). Aliant Horizons was incorporated on August 4, 1999 under the *Canada Business Corporations Act*. Its registered office is at Suite 1100, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2. Aliant Horizons is focused on developing and nurturing new technology based products and services for sale in Atlantic Canada and around the world.

Aliant Properties Inc. (“Aliant Properties”) was incorporated on August 4, 1999 under the *Canada Business Corporations Act* to hold the real estate assets of Aliant. Its registered office is at Suite 1100, 1959 Upper Water Street, Halifax, Nova Scotia, B3J 3N2.

## **ITEM 2 GENERAL DEVELOPMENT OF THE BUSINESS**

Over the past several years, the Combining Companies have developed, implemented and executed business plans that have been designed to provide substantial growth opportunities, both within and outside their traditional telecommunications businesses, and both inside and outside of their traditional territories. These business plans have been successful in maintaining and enhancing the profitability of each Combining Company within a demanding and increasingly competitive environment.

The Combining Companies decided in early 1999 that their combination, together with the development of a strong strategic relationship with BCE Inc. (“BCE”) and Bell Canada, would have benefits for their shareholders, customers, employees and other stakeholders. The benefits included:

- providing greater scale within their traditional territories that would allow for the maintenance of a competitive cost structure;
- permitting broader scope in the integration of the product lines of the Combining Companies for delivery of products and services throughout their traditional territories;
- providing more assured and cost-effective access to the technology and brands of Bell Canada and its partners for delivery within their traditional territories;
- permitting a greater scale of investment in the development and support of products and services to customers both inside and outside of their traditional territories;
- providing a larger platform from which to fund and evaluate growth opportunities, especially in mobile satellite services and emerging businesses, of the four Combining Companies. As a larger company, Aliant’s portfolio of growth opportunities will benefit from the investment of additional capital. Aliant also has greater potential to export its products and services outside Atlantic Canada;
- achieving benefits from the merging of activities in the information technology business in order to develop further scale in specific industry capabilities;
- creating a much more significant market capitalization and public float, which will provide substantially greater liquidity and the opportunity for significant institutional exposure for the shares of Aliant in comparison to the capital markets presence of each of the Combining Companies individually.

As a result of the combination, the Combining Companies expect to annually save \$86 million in cash operating costs, an increase of \$6.0 million from original projections, and \$50 million in capital expenditures on a run-rate annualized basis by mid-June 2001. Synergies will come from the consolidation of functional support areas and the realization of potential savings due to combined purchasing power. One-time restructuring costs to achieve these savings were recorded in the third quarter of 1999 amounting to \$78.0 million (\$42.5 million after tax) which included voluntary early retirement programs, employee transfer costs and other costs resulting from merger integration activities.

### **Strategic Alliance with BCE and Bell Canada**

Aliant and the parties to the Combination Agreement entered into a Memorandum of Agreement dated March 19, 1999, as amended with BCE and Bell Canada. This long term strategic alliance agreement provides for an orderly transition and continuity of the business relationships between them and summarizes the understanding of the parties with respect to a strategic alliance for the provision and delivery of telecommunications services.

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

Aliant gains access to Bell Canada's technology, the exclusive right to use specified Bell Canada trademarks in its traditional territory, and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by Aliant. Each party has agreed to provide the other with support services, including access to operational support and technical, marketing, training and similar assistance. Both parties will attempt to achieve benefits resulting from a pooling of their requirements such as the aggregation of traffic and purchasing requirements.

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

On October 4, 1999, Bell Canada announced that it was making a cash offer to purchase up to 15.8 million outstanding Aliant common shares for \$27.00 through a tendering process. On December 17, 1999, BCE announced that it had increased its offer to \$27.50

per common share and that the offer would expire on January 21, 2000. On January 27, 2000, BCE confirmed that 30,850,538 Aliant common shares had been tendered under the offer and that BCE has taken up and accepted for purchase 15,800,000 common shares at \$27.50. Subject to regulatory approval, BCE holds 53.46% of the outstanding shares of the Company.

### **ITEM 3 DESCRIPTION OF THE BUSINESS**

#### **TELECOMMUNICATIONS**

The Aliant Telecommunications group consists of Aliant Telecom and its subsidiaries, as well as Aliant's 87% partnership interest in Tele-Direct (Atlantic).

The subsidiaries of Aliant Telecom include the following directly and indirectly owned subsidiaries. Island Tel, Maritime Tel & Tel Limited ("MTT"), NBTel Inc. ("NBTel") and NewTel Communications Inc. ("NewTel Communications"), - (collectively the "Telcos"), MT&T Mobility Incorporated ("MTT Mobility") and NewTel Mobility Limited ("NewTel Mobility").

Aliant Telecom subsidiaries also include NBTel VideoActive Network Limited and Aliant Advanced Communications Inc.

Aliant Telecom's subsidiaries have been influenced over the last five years by increasing competition in businesses which were formerly regulated monopolies, and changes in regulation. These are described beginning on page 8 under the headings "Regulation" and "Competition".

#### **Revenues**

The Aliant telecommunications group had revenues of \$1.6 billion, net income from continuing operations of \$188.9 million and assets totaling \$2.5 billion at December 31, 1999. The following table summarizes the telecommunications operating results for 1999 and 1998.

### Telecommunication Operating Results *(Thousands of dollars)*

	1999	1998	% change
Operating revenue	\$1,636,011	\$1,556,775	5.1
Operating expenses excluding restructuring costs	1,203,603	1,156,957	4.0
Operating income before restructuring costs	432,408	399,818	8.2
Restructuring costs	78,000	-	-
Operating income	354,408	399,818	(11.4)
Other income	14,063	1,752	702.7
Amortization	313,523	309,477	1.3
EBITDA	681,994	711,047	(4.1)
EBITDA from continuing operations	756,189	707,217	6.9
Net income	146,395	165,248	(11.4)
Net income from continuing operations	\$188,927	\$168,625	12.0

### Wireline services

Wireline revenues grew by 3.7%, while operating expenses increased by 1.9%, leading to a 9.2% increase in operating income in 1999, compared to 1998. The following table summarizes the wireline operating results for 1999 and 1998.

### Wireline Operating Results *(Thousands of dollars)*

	1999	1998	% change
Local	\$828,131	\$782,774	5.8
Long distance	456,421	481,928	(5.3)
Other	168,358	136,405	23.4
Operating revenues	1,452,910	1,401,107	3.7
Costs of revenues	189,422	164,700	15.0
Amortization	293,176	291,208	0.7
Other operating expenses excluding restructuring costs	584,445	591,733	(1.2)
Operating expenses excluding restructuring costs	1,067,043	1,047,641	1.9
Operating income before restructuring costs	385,867	353,466	9.2
Restructuring costs	78,000	-	-
Operating income	307,867	353,466	(12.9)
Other income	13,938	1,257	-
Amortization	293,176	291,208	0.7
EBITDA	614,981	645,931	(4.8)
EBITDA from continuing operations	689,176	642,101	7.3
Net income	122,491	142,275	(13.9)
Net income from continuing operations	\$165,023	\$145,652	13.3

### *Local Service*

Local service revenues are derived principally from the provision of network access service to residence and business customers, telephone set rentals and enhanced service options. Contribution payments for access to Aliant Telecom's local network by long-distance carriers, including the long-distance operations of Aliant Telecom, are also included in local revenues. At December 31, 1999 Aliant Telecom had 1,538,569 wireline network access lines compared to 1,503,004 the previous year.

### *Long Distance Service*

Long distance service revenues are derived from toll service and network services. Toll service consists of basic message toll service, including long distance services, which are carried out by a variety of calling plans. Network services include private line voice services and business data services. Business data services are offered to customers to meet a wide variety of their needs, including public digital packet switched communications networks such as DataPac, and digital private line services such as DataRoute and MegaStream/MegaRoute. Long-distance conversation minutes during 1999 totaled 2.854 billion compared to 2.126 billion in 1998.

### *Wireless*

Wireless services include the cellular, paging and other mobile communications provided by Island Tel Mobility (a division of Island Tel), MTT Mobility Incorporated, NBTel Mobility (a division of NBTel) and NewTel Mobility Limited. Wireless revenues in 1999 grew by 17.6%, while cellular customers increased to 298,448 compared to 231,031 in 1998. The following table summarizes the wireless operating results for 1999 and 1998.

#### **Wireless operating results** (*Thousands of dollars*)

	<b>1999</b>	<b>1998</b>	<b>% change</b>
Cellular	\$162,679	\$137,755	18.1
Paging	11,238	11,277	(0.3)
Mobile	9,184	6,636	38.4
Operating revenues	183,101	155,668	17.6
Costs of revenues	8,192	8,399	(2.5)
Amortization	20,347	18,269	11.4
Other operating expenses	108,021	82,648	30.7
Operating expenses	136,560	109,316	24.9
Operating income	46,541	46,352	0.4
Other income	125	495	(74.7)
Amortization	20,347	18,269	11.4
EBITDA	67,013	65,116	2.9
Net income	\$23,904	\$22,973	4.1

For a complete discussion on the operating results of the telecommunications line of business please refer to document entitled “Management’s Discussion and Analysis for the Year Ended December 31, 1999” which is incorporated herein by reference.

## **Regulation**

### *General*

As Canadian carriers, the Telcos are regulated by the CRTC pursuant to the *Telecommunications Act*. The Commission has broad powers with respect to the terms and conditions of provision of telecommunications services by Canadian carriers, subject to its power to forbear from regulation as described below under the heading “Forbearance”.

### *Form of Regulation*

For many years, the prices and terms for local and long distance services of telephone companies in Canada were regulated based on their earnings. In 1994, after undertaking an extensive review, the CRTC announced its intention to fundamentally restructure the way that the telephone companies were regulated. Generally, services classified as “competitive” would not be subject to financial regulation, while rates for services classified as “utility” would be governed by a price cap methodology.

### *Price Cap Regulation*

In its 1994 decision, the CRTC announced that it would introduce price cap regulation for utility services beginning January 1, 1998. Following a two-step proceeding to establish the specifics of the price cap regime for each telephone company, the CRTC established a price cap plan for the telephone companies, including the Telcos, that will be in effect from January 1, 1998 until December 31, 2001. It provides that the companies may increase or decrease prices of those utility services that are subject to price cap regulation, so long as the index of prices for those services in aggregate does not exceed an index (the “price cap index” or “PCI”). The PCI is adjusted each year by the rate of inflation less a “productivity offset” of 4.5%, plus or minus an “exogenous factor” for matters beyond the control of the telephone companies.

The PCI is applied to a “basket” of utility services offered by the telephone companies including residential local services and single and multi-line local business services. Residential local services are subject to further pricing constraints in that prices for those services cannot increase, in average, by more than the inflation rate. Certain utility services, such as optional local services, are not subject to price caps.

In 2000, the Commission will initiate a review of the price cap regime. This will include a consideration of whether and in what form the price cap regime should be continued, whether the level of the productivity offset should be adjusted and whether changes should be made in the contribution payments made by long distance service providers.

This review will include an examination of the financial results of the utility segment of the telephone companies.

As part of the price cap regime, contribution rates were frozen for the price cap period. In 1999, the CRTC undertook two proceedings to review whether a frozen contribution rate would continue to be appropriate, and whether there should be changes to how contribution is collected. In CRTC Decision 99-20 the Commission concluded that it would not unfreeze contribution rates. In a separate proceeding the Commission commenced a review of whether there should be changes to how contribution is collected. This proceeding will continue in 2000.

### *Forbearance*

Under the *Telecommunications Act*, the CRTC has the power to forbear from exercising its regulatory powers, in whole or in part and conditionally or unconditionally, where it is satisfied that to do so would be consistent with Canadian telecommunications policy objectives. With increasing competition in telecommunications, the CRTC has found it appropriate, in several circumstances and to varying degrees, to forbear from regulating the telephone companies and their competitors with respect to the services they offer.

The first forbearance order granted was in 1994 for the sale of terminal equipment, such as subscriber telephones. In 1995, the CRTC granted forbearance for the services offered by the new competitive long distance providers, like AT&T Canada Long Distance Services and Sprint Canada, while retaining regulation for the services provided by the incumbent telephone companies, including the Telcos.

In February 1996, the CRTC granted forbearance of packet switched data services for the telephone companies including DataPac, Hyperstream, PostPac and any future packet data and frame relay services. In December 1996, the Commission granted forbearance of electronic messaging and information services. In December 1997, the CRTC granted forbearance with respect to voice long distance services, for basic toll, discounted toll and toll-free services (800/888) for the telephone companies effective March 18, 1998. As a result of this decision, the Telcos were placed on the same competitive footing as their competitors with respect to long distance services. Also in December 1997, the CRTC granted forbearance with respect to high-speed private line services on certain major routes effective March 18, 1998. In September 1999 and in November 1999, the Commission granted forbearance for these services on additional routes, both in the Atlantic Region and across Canada.

The Commission has also granted forbearance for mobile wireless services, including paging, cellular, PCS, mobile data and two-way radio, regardless of whether those services are provided in structurally separate entities or by the telephone companies on an integrated basis.

In June 1998, the Telcos received approval to offer Internet service on a forborne basis.

The Telcos are currently parties to several forbearance applications under consideration by the CRTC relating to digital network access services and wide area networking (WAN) services. Decisions in these forbearance applications are expected in 2000.

In 1998 NBTel became the first telecommunications company in Canada to be granted the right to obtain a broadcast distribution undertaking ("BDU") by the CRTC. The BDU will allow NBTel to provide cable television services through its broadband network in Saint John and Moncton. In January 2000, NBTel launched interactive cable television services in Moncton using ImagicTV's technology.

In December 1999, MTT applied to the CRTC for a BDU license to provide broadcast services in the Halifax Regional Municipality. It is expected that a decision on the application will be made in 2000.

## **Competition**

Through the decade of the 90's, the CRTC has implemented a policy of introducing competition in various aspects of the telecommunications business, which were formerly regulated monopolies. Major steps were taken in 1990 with the allowance of resale of telephone service to provide long distance services, in 1992 with the allowing of voice long distance service competition by carriers using their own network facilities, and in 1997 with the allowance of competition in the provision of local services. Other aspects of the telephone business have been competitive for much longer, including private line and data services, sale of telephone terminal equipment, and cellular and other wireless services. Virtually all aspects of the Telcos business are now subject to competition. They are not dependent on any single customer for 10 percent or more of their revenues or income, but their larger business customers do account for a significant portion of their revenues.

The Commission has adjusted the regulatory framework governing the telephone companies, including the Telcos, as competition has become established. Initially, a number of competitive safeguards were imposed limiting the ability of the incumbent telephone companies to bundle services in offerings to customers, and restricting their ability to reduce prices. As competition has become more established, certain of these safeguards have been reduced or withdrawn, and regulation of certain services has been forborne in whole or in part. (See the section above entitled "Forbearance")

### *Local*

In compliance with regulatory requirements, the Telcos have put in place the software, equipment and procedures to allow for local number portability ("LNP"), local network interconnection ("LNI") and the resale of local loops in Halifax, Saint John and St. John's. In October 1998 a competitive local exchange carrier ("CLEC") began providing competitive access to residential and business customers in Halifax. In December 1999 a CLEC began providing competitive access to residential and business customers in St.

John's. Competitors for local services are expected to emerge in other Atlantic Canadian markets in 2000.

### *Long-distance*

Long distance competition intensified considerably in 1999, with flat-rate monthly pricing packages introduced by competitors in the residential market and per-minute rates continuing to decline in the business market. Aliant Telecom expects that these pressures will persist and that margins in the long distance market will continue to narrow, although the speed at which prices have fallen in 1999 should moderate in 2000. When these pricing effects are combined with growing minute volumes, the incremental revenue from growing long distance volumes has declined substantially. Aliant Telecom continues to focus on maintaining margins through improved efficiency and maintaining market share.

### *Wireless Services*

1999 saw the entrance of a national digital cellular competitor to the Halifax market. A second national competitor has installed a digital network in St. John's although they have yet to launch their service. Although Aliant Telecom believes that some cellular market share could eventually be lost, management is confident it can address the competition through superior service offerings and retain a strong market position. Market and technology conditions will be closely monitored to ensure digital services are deployed to the rest of the region at the time that best serves customer needs.

### *Internet*

Aliant Telecom is the major Internet service provider in Atlantic Canada, with an estimated market share of 65% of the total consumer Internet market. Competition exists throughout the region for both Internet dial-up and high-speed services. However, Aliant Telecom's focus on quality, customer service, and its range of applications, along with the dedicated two-way access on its high-speed network, will enable it to maintain its strong market position in the future.

## **Technology**

The major technological challenge and risk facing Aliant Telecom over the coming years is to deploy a "next generation network" infrastructure that takes into account shortened product life cycles and facilitates the convergence of different market segments – all while satisfying customer demand for new products and services at competitive prices. Further, technological advances may well emerge that could reduce or replace the costs of plant and equipment and eliminate or reduce barriers that deter other companies from competing in particular market segments. The Aliant merger and the formation of Aliant Telecom has reduced this technology risk as Aliant Telecom can now share resources, investment and knowledge among its operating companies.

## **Alliances**

### *Atlantic Provinces Telecommunications Council*

The Telcos since 1970 participated in an alliance called the Atlantic Provinces Telephone Council (“APTC”). The objectives of this alliance were to reduce investment and operating costs and increase revenue potential through joint initiatives. Since the four companies have come under common ownership, Aliant expects to realize substantial annual savings of approximately \$86 million in cash operating expenses and \$50 million in capital expenditures on a run rate basis by mid-2001. The majority of these savings will be achieved in the subsidiaries of Aliant Telecom.

### *Stentor*

The Telcos have been members of Stentor, a working association of nine provincial Canadian telephone companies. The Stentor alliance went through major changes in 1999 as the member companies decided to pursue independent, competitive service development and marketing strategies. Together with Telesat Canada Inc. and two associate member companies, Stentor formed an entity known as Stentor Canadian Network Management (“SCNM”). SCNM managed the interconnections which provide long distance telephone and data transmission facilities across Canada, established operating procedures to expedite the handling of long distance calls within Canada and internationally, and administered the system of financial transactions among the members and with international carriers for the settlement of revenues for these services. Through Stentor, the members formed an alliance with MCI Telecommunications Corp. for the development and delivery of a portfolio of advanced network services. Additionally, the members were parties to agreements with AT&T, MCI WorldCom, Sprint, Teleglobe Canada and others that provide for interconnecting international telecommunications services.

The members of Stentor also created three jointly-held companies, Stentor Resource Centre Inc. (“SRCI”), Stentor Telecom Policy Inc. (“STPI”) and Stentor Services Inc. (“SSI”). From 1993 SRCI was responsible for research and development and for national marketing activities. STPI, which began operation in 1992, fulfilled a government-relations advisory role for the member companies. SSI was established to manage the alliance with MCI and to hold certain jointly-used assets.

### *Restructuring of Alliances*

As of January 1, 1999, certain functions previously carried out by SRCI and STPI were transferred to SCNM, while the individual member companies assumed others. Functions of continuing value that were returned to the individual member companies were made available to other members on a contracted basis. STPI and SRCI ceased operations.

The connecting agreement and the related governance agreement under which SCNM had operated was terminated effective December 31, 1999. Effective January 1, 2000, Bell Canada took over the activities previously provided by SCNM, offering these services to the former Stentor member companies on a contractual cost recovery basis. It

is expected that these costs will be reduced because of the synergy gains from the amalgamation with similar operations existing in Bell Canada.

Bell Canada and MCI WorldCom Inc. announced a strategic alliance that would allow Bell Canada to be the exclusive provider in Canada of MCI WorldCom's On-Net services, with the right to sublicense this capacity to other carriers. The former alliance between MCI and the Stentor members will terminate April 15, 2000. The Telcos will continue to have access to MCI services in its operating territory under an agreement with Bell Canada.

In 1999 the Aliant Telecom companies entered into agreements with Bell Canada to coordinate and provide access to international destinations.

#### Mobility Canada – Reorganization

The cellular operating divisions or affiliates of the Stentor member companies formed Mobility Canada, of which the Telcos or their mobility affiliates are members. This alliance has provided coordination of cellular coverage across Canada and coordination of agreements with cellular service providers elsewhere. It also provided national marketing and certain shared administrative functions, such as financial settlements among the member companies and with other cellular service providers, and national billing infrastructure.

As in the case of Stentor, the members of Mobility Canada have decided to pursue independent, competitive service development and marketing strategies. Accordingly, Mobility Canada no longer provides national marketing and this function has been assumed by the member companies. Mobility Canada continues to provide certain shared administrative functions to the member companies on a contract basis.

#### *New Alliance Agreements*

In 1999 agreements were signed for an alliance with BCE's new national broadband and Internet provider company, BCE Nexxia Inc. ("Nexxia"). Under these agreements the Aliant Telecom companies provide network and access facilities to Nexxia in the Atlantic Provinces, and provide and distribute Nexxia services to customers in the Atlantic Provinces. The Aliant Telecom subsidiaries obtain access to Nexxia intellectual property, and access to a highly advanced national broadband network over which to offer many of its innovative applications.

Throughout 1999, Aliant Telecom conducted negotiations for other specific agreements necessitated by the wind down of the Stentor alliance, and to give definition to a new alliance with Bell Canada, MTS Communications Inc. and Saskatchewan Telecommunications. New terms for interconnection and exchange of traffic with Telus Communications Inc. and Telus Communications (B.C.) Inc. were also negotiated.

Certain agreements are still in negotiation with completion expected by the end of March 2000. These include an Operational Support Services agreement with Bell for the provision of former SCNM services, a revised arrangement for revenue settlement, the final requirements for the formal windup of Stentor, and a sub-license for the exclusive provision of MCI WorldCom Inc. On-Net Services to Aliant's customers.

### **Capital Construction Program**

The Telcos capital construction program consists of projects to meet growth in demand for telecommunications services, continue service improvement programs, improve the efficiency of corporate operations, and introduce new telecommunications services.

The telecommunications group construction program was \$319.1 million in 1999 compared to \$292.8 million in 1998.

### **Property**

The physical property of Aliant Telecom consists of land, buildings, towers, plant and equipment including poles, wire, cable, underground conduit, microwave radio relay equipment, fibre optic cable and equipment, motor vehicles, office furniture, materials and supplies, other miscellaneous equipment and construction in progress. As at December 31, 1999, the gross value of the property amounted to approximately \$4.3 billion and the net book value was approximately \$1.9 billion. Aliant Telecom's buildings together with its other plant, apparatus and equipment are located throughout Atlantic Canada.

Island Tel's Bonds are secured by a Deed of Trust and Mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon real and immovable property and equipment of Island Tel, and a floating charge on all other property of Island Tel, both present and future.

MTT's Bonds (all created before 1992) are secured by an Indenture of Trust and Mortgage and by deeds supplemental thereto, containing a first mortgage and charge upon all real property and equipment and a floating charge on all other property, both present and future. Since 1992 MTT's borrowings have been represented by Debentures, which are issued under a different trust indenture and are unsecured.

NewTel Communication's First Mortgage Bonds are secured by a first, fixed and specific mortgage on all telecommunications property now owned or to be acquired in the future and by a first floating charge on all other assets.

The primary external sources of financing for the Telcos' operations are debentures, previously issued to the public and now issued only to Aliant Telecom and short-term borrowings from Aliant. As part of the Telcos' agreements with Aliant Telecom, they will no longer issue debentures to the public and have guaranteed the aggregate amount of Aliant Telecom's debt outstanding. During 1999, Aliant Telecom issued \$200 million medium term notes ("MTNs") to refinance \$185 million of both short (\$70 million) and long-term debt (\$115 million) of the Telcos. The remaining \$15 million will be used to

finance a portion of the Telco requirements for debt maturing in 2000. These notes are issued under a trust indenture and are unsecured. Aliant Telecom's MTNs are rated A stable by Dominion Bond Rating Service, Standard & Poor's and Canadian Bond Rating Service.

### **Research and Development**

In 1999, the telecommunications group spent approximately \$4.1 million on research and development of new telecommunications products and services for its customers and for more cost effective operation of the telecommunications network.

### **Environmental Matters**

The Company has adopted an environmental plan based on conducting its business affairs in a manner which protects people and their environment. The cost of these environmental plans, while not material, is included in the Capital Expenditure Program of the Company and are not expected to have a material impact on future years earnings.

### **Employee Relations**

As of December 31, 1999, Telecommunications group had 6,945 employees (1998 – 6,993).

Employees in the telecommunications line of business are covered by the terms of collective agreements:

Island Tel has collective agreements with the union locals representing clerical staff, operators, craft employees and first level managers. During 1999, contracts with the Communications, Energy and Paperworkers Union of Canada representing Island Tel's operators, clerical and craft employees were renegotiated and expire on January 5, 2002. The agreement with first level managers, which expired January 1, 2000, is currently under negotiation

Maritime Tel has collective agreements with the Atlantic Communication and Technical Workers Union representing craft and clerical workers and operators. During 1999, new contracts were signed with an expiration date of December 31, 2001

NBTel's collective agreements with the union locals representing operators and technical expired on April 4, 1999. A new contract was signed on June 14, 1999 and expires March 29, 2003.

NewTel's unionized employees are represented by Local 410 of the Communications, Energy & Paperworkers Union of Canada. During 1999, a new contract was successfully renegotiated and expires on December 31, 2001.

During the year, 563 employees accepted a voluntary early retirement programs. The cost of this early retirement program has been included in the \$78.0 million charge to earnings discussed under “Item 2, General Development of the Business”.

## **INFORMATION TECHNOLOGY**

Aliant’s information technology business is carried on by Aliant IT and its principal subsidiaries, MITI Information Technology Inc. (“MITI”) of Saint John, New Brunswick and Xwave Solutions Inc. (“xwave”) of St. John’s, Newfoundland.

Aliant IT concentrates on clients in sectors in which it has relevant experience, including oil and gas, telecommunications and the public sector. By maintaining this focus, Aliant IT expects to provide superior service and higher value business solutions. Within specific regions, Aliant IT targets additional sectors, which, over time, may grow into new target verticals. Aliant IT will supplement this industry orientation with specialty practices focussed on high-growth and advanced technologies.

Aliant IT provides systems integration, application development, local area network installation, wide area network management, data center operations, value-added resale and information planning services. Aliant IT has offices in Montreal, Ottawa, Toronto, Calgary, Edmonton, and Dallas, Texas and throughout Atlantic Canada.

MITI was acquired in April 1998 by Bruncor and was amalgamated with Datacor/ISM Information Systems Management Atlantic Corp in September 1998. In 1998, NBTel acquired 100% ownership of Datacor by purchasing a 49% voting interest from two minority shareholders. xwave was formed in December 1998 by amalgamating several subsidiaries of NewTel, namely NewTel Information Solutions Limited (“NIS”), Paragon Information Systems Inc. (“Paragon”), Minerva Technology Inc. (“Minerva”) and 10735 Newfoundland Limited including its wholly owned subsidiary, Minerva Technology, Inc. (Minerva Dallas), now Xwave Solutions Corp., and the information technology division of MTT.

During 1999, Aliant expanded its information technology business segment with a series of acquisitions. In February, MITI acquired the information technology business of Keltic Technologies Group Inc. for \$2.6 million adding 80 employees with operations in Newfoundland, Nova Scotia and New Brunswick. In March 1999, MITI also acquired the assets and operations of Galahad Information Systems an Ontario-based IT company with 11 employees for \$.5 million. In April 1999, xwave acquired Software Kinetics Ltd. for \$20.0 million adding 270 employees in Halifax and Ottawa. In early 2000, Aliant Telecom transferred approximately 150 information technology employees to xwave. On January 31, 2000, xwave acquired Prior Data Sciences Ltd. for \$30 million with over 250 software and systems specialists and offices in Ottawa, Toronto, Montreal and Halifax.

The information technology line of business showed substantial growth in revenues and earnings from strong internal growth and the impact of 1998 and 1999 acquisitions.

**Information Technology Operating Results** (*Thousands of dollars*)

	1999	1998	% change
Service revenues	\$164,130	\$92,453	77.5
Product sales	88,512	53,982	64.0
Total operating revenues	252,642	146,435	72.5
Cost of revenues	81,134	45,889	76.8
Amortization	8,986	7,298	23.1
Other operating expense	138,877	77,307	79.6
Total operating expense	228,997	130,494	75.5
Operating income	23,645	15,941	48.3
EBITDA	32,837	23,281	41.0
Net income	\$11,451	\$7,779	47.2

For a complete discussion on the operating results of the information technology line of business please refer to the document entitled “Management’s Discussion and Analysis for the Year Ended December 31, 1999” which is incorporated herein by reference.

**Research and Development**

The information technology line of business did not have any material research and development expenses in 1999.

**Employee Relations**

As of December 31, 1999, Aliant IT and its subsidiaries had 1,687 employees, up 54.6% from 1,091 at the end of 1998. The employee base is non-unionized.

**MOBILE SATELLITE COMMUNICATIONS**

Aliant’s satellite communications business segment is carried out through its ownership in Stratos. During 1999, Aliant purchased an additional common shares of Stratos, increasing its ownership from 61% to 65.25%.

Stratos is publicly traded on The Toronto Stock Exchange under the trading symbol “SGB”.

**General Development of Stratos**

Stratos began as an investment/management company which made equity investments in a variety of different operating entities, including a 24.5% equity investment in Stratos Wireless Inc. (“SWI”).

Commencing in 1995, Stratos began a series of transactions, which resulted in its ownership interest in SWI increasing from 24.5% to 55% in 1996 and, ultimately, to 100% in 1998. The effect of these and other transactions (through which Stratos has divested its non-core assets) has been that Stratos is now exclusively in the business of providing mobile and fixed satellite communications solutions to high volume, industrial customers in a variety of industries.

IDB Mobile Communications Inc. (“IDB Mobile”) was acquired by Stratos (through its subsidiary SWI) in two stages. In October 1996, Stratos acquired 50% of IDB Mobile from Teleglobe Canada Inc. (“Teleglobe Canada”) for 4,394,452 common shares of SWI, representing a 29% interest in SWI. In April 1997, the remaining 50% of IDB Mobile was acquired by Stratos from the predecessor corporation of MCI WorldCom for US\$5 million in cash and a promissory note in the principal amount of US\$1.5 million.

In September 1998, Stratos acquired Teleglobe Canada’s Inmarsat-related mobile communication satellite assets (the “Teleglobe Assets”), including its 29% equity interest in SWI, for an aggregate purchase price of \$82.1 million. As part of the acquisition, the Canadian federal government designated SWI as the Canadian Inmarsat Signatory in place of Teleglobe Canada.

In August 1998, Stratos acquired MarineSat Communications Network, Inc. (“MCN”) of Jupiter, Florida from ICG Satellite Services Inc. The aggregate acquisition cost of the MCN shares was approximately US\$1.3 million. MCN is the largest distributor of maritime telecommunications services to coastal and commercial vessels and private yachts using the American Mobile Satellite Corporation (“AMSC”) satellite.

In October 1998, Stratos acquired the maritime mobile satellite business of AMSC for an aggregate purchase price of US\$8.5 million. The assets acquired included 3,300 MSAT maritime terminals and approximately 3,000 active customers. In addition, Stratos entered into a four-year distribution agreement, which placed it atop the AMSC maritime distribution chain.

On November 18, 1998, Stratos acquired Nova-Net Communications, Inc. (“Nova-Net”) from ICG Communications, Inc. of Englewood, Colorado. The purchase price paid for the Nova-Net shares was approximately US\$5.7 million. Nova-Net is a specialized provider of data communications networks utilizing very small aperture terminal (“VSAT”) technology.

On March 13, 2000, Stratos announced that it had entered into a definitive agreement to acquire the assets of Datacom Inc. of Lafayette, Louisiana. Datacom provides voice and data communications solutions (including Internet access and network connectivity) through a digital microwave system located in the Gulf of Mexico. Datacom is also a licensed competitive local exchange carrier in Louisiana and Texas. The transaction is subject to regulatory approvals and other closing conditions.

On April 7, 2000, Stratos completed the acquisition of Shell Offshore Inc.'s telecommunications subsidiary, Shell Offshore Services Company ("SOSCo"). Based in New Orleans, Louisiana, SOSCo uses a digital microwave system to provide voice, data and video services, Internet access and network connectivity to over 250 remote drilling rigs and production platforms located offshore in the Gulf of Mexico. Additionally, SOSCo is a licensed competitive local exchange carrier with central switches in New Orleans, Houston and Lafayette providing local and long distance telephone services to its offshore and traditional telecom customers.

During 1998, Stratos divested itself of SCC Environmental Group Inc. and its 45% interest in Arctic Systems Limited, and also exercised a pre-existing put option to sell its 28.3% interest in America BOA Incorporated ("BOA"), to an existing BOA shareholder. Under the terms of the put, Stratos was entitled to receive fair market value for its interest in BOA as determined by an independent valuator. This process was completed in December, 1999 with Stratos receiving gross sale proceeds of US\$4.5 million. The sale of these three non-core assets positioned Stratos as a pure provider of remote communications solutions, serving a variety of industrial customers in the U.S. and Canada as well as in a number of other countries around the world. Its revenues, a significant portion of which are generated in U.S. dollars, are now derived principally from the sale of mobile and fixed satellite airtime contracts, with a portion of revenues attributable to the sale of equipment and specialized communications software and hardware.

### **Business of Stratos**

Stratos is a vertically integrated remote communications solutions provider that either owns and operates its own telecommunications facilities, shares facilities with other telecommunications carriers, or distributes the services of other network operators. At present, Stratos generates revenue from the provision of Inmarsat, MSAT, VSAT and C-Band satellite services. It currently provides customers with global coverage for all major Inmarsat classes of service and provides MSAT services to marine and land-based customers in the U.S., as well as C-Band and VSAT services to resource-based industries. Stratos also operates a high frequency ("HF") radio facility providing service for oceanic users in the North Atlantic, as well as providing offshore oil and gas communications in eastern Canada.

The mobile satellite line of business has showed strong growth in revenues and earnings from internal growth and the annualized impact of the 1998 acquisitions.

**Mobile Satellite Operating Results** (*Thousands of dollars*)

	<b>1999</b>	<b>1998 (1)</b>	<b>% change</b>
Total operating revenues	\$144,073	\$37,190	287.4
Cost of revenues	95,438	25,288	277.4
Amortization	9,791	3,338	193.3
Other operating expense	24,995	6,485	285.4
Total operating expense	130,224	35,111	270.9
Operating income	13,849	2,079	566.1
EBITDA	30,739	6,965	341.3
Net income	\$3,977	\$365	989.6

Note 1: The Mobile Satellite operating results for 1998 reflect the results of Stratos from September 1 to December 31, 1998.

For a complete discussion on the operating results please refer to the document entitled “Management’s Discussion and Analysis for the Year Ended December 31, 1999” which is incorporated herein by reference.

**Regulation of the Satellite Services Industry**

Canadian Regulatory Environment and Licensing

*General Regulatory Framework*

Since the designation of SWI as the new Canadian Signatory to Inmarsat in August, 1998, the regulatory framework governing the provision of mobile satellite services in Canada has gone through significant changes in support of Canada’s efforts to liberalize further the mobile satellite services market in Canada. These changes were required to implement Canada’s commitments made under the WTO Agreement on Basic Telecommunications and while they will provide Stratos with increased flexibility in the operation of its facilities and the provision of its services, they will also provide opportunities for new entrants to offer competitive mobile satellite services in Canada, including competitive Inmarsat services.

*The WTO Agreement on Basic Telecommunications*

On February 15, 1997, Canada entered into the World Trade Organization’s *General Agreement on Trade in Services - Agreement on Basic Telecommunications* to liberalize the provision of basic telecommunications services in Canada. In this agreement, Canada made several commitments including: (i) with respect to mobile satellite services, to permit up to 100% foreign ownership of a mobile satellite system used by a Canadian service provider to provide services in Canada and to remove all restrictions on the routing of mobile satellite telecommunications traffic to and from Canada by October 1,

1998; and (ii) with respect to fixed satellite services, to allow the use of foreign satellite stations to provide overseas services by December 31, 1999 and to provide domestic (Canada-Canada) and cross-border (Canada-U.S.) services by March 1, 2000.

In support of the above commitments, Canada made changes to its regulatory regime to permit: (i) the foreign ownership and operation of land earth stations (“LESs”) and subscriber earth stations for mobile satellite services effective March 4, 1999; and (ii) the foreign ownership and operation of earth stations for fixed satellite services (effective March 4, 1999 for overseas services and effective March 1, 2000 for domestic and cross-border services). The implications of these amendments are two-fold. Firstly, they will permit SWI to enter into strategic ventures with a foreign carrier for the ownership and operation of its earth station assets and the provision of its satellite services. Secondly, they have the effect of liberalizing both the Canadian mobile and fixed satellite service markets to permit foreign carriers to establish and operate LESs in Canada and offer mobile and fixed satellite services in Canada.

#### *Regulation by the CRTC*

As a Canadian carrier, SWI is subject to regulation under the *Telecommunications Act* by the CRTC and is required to file tariffs for approval with the CRTC for the rates and terms and conditions of the services it offers and to obtain approval of all agreements it may enter into with other telecommunications common carriers for the exchange of telecommunications traffic, unless it has been forborne by the CRTC from such requirements. On February 3, 2000, the CRTC advised Stratos that it had decided to forbear from the regulation of the Inmarsat mobile satellite services and other wireless services provided by Stratos and its affiliates.

Under the *Telecommunications Act*, all providers of international telecommunication services in Canada are required to hold and keep current an international telecommunications service licence issued by the CRTC. The CRTC has the authority to suspend or revoke an international telecommunications service licence if it believes that the licensee has contravened the *Telecommunications Act*, the regulations thereunder or any condition of its licence. SWI holds an international telecommunications licence which was issued by the CRTC on January 1, 1999.

#### *Regulation by Industry Canada*

Industry Canada manages the use and allocation of radio spectrum in Canada through the issuance of radio and spectrum licences pursuant to the *Radiocommunication Act* and its regulations. SWI holds radio licences for its Inmarsat LESs and TT&C stations, as well as its C-band earth stations and HF radio stations. SWI also holds a spectrum licence issued December 15, 1999 in respect of its Inmarsat mobile satellite services in Canada, which, pursuant to a recent Industry Canada policy, replaced the 314 radio licences previously held for SWI’s Inmarsat subscriber earth stations. The issuance of the spectrum licence will permit SWI to operate an unlimited number of subscriber earth stations without the need to obtain additional licences as it adds subscribers to its Canadian subscriber base.

The spectrum licence provides that the issuance of the spectrum licence to SWI does not grant SWI a monopoly on the provision of domestic or international Inmarsat mobile satellite services in Canada. Accordingly, as one of the conditions of its spectrum licence, SWI is required to share the spectrum assigned under its licence with any other licensees that may be authorized by Industry Canada to use the same spectrum to provide Inmarsat mobile satellite services in Canada. In addition to the above, SWI is required to invest a minimum of 2 per cent of its adjusted gross revenues from its mobile satellite services on satellite-related research and development activities, averaged over the first five years of the term of its licence.

### *Privatization of Inmarsat*

Following the acquisition of the Teleglobe Assets, Industry Canada designated SWI as the Canadian Signatory to Inmarsat replacing Teleglobe Canada. At the time, Inmarsat was an international consortium of over 80 member countries providing global mobile satellite services around the world. Each member country of Inmarsat designated a Signatory, which contributed to the cost of building, launching and operating the Inmarsat satellite system. In return for their capital investments, Signatories received an investment share in Inmarsat and the right to access the Inmarsat satellite network via LESs owned or leased by them. Signatories then sold Inmarsat mobile satellite services on both a retail and wholesale level.

In April of 1999, Inmarsat was restructured to form a new privatized company registered in the United Kingdom, and its business assets and commercial operations were transferred to the new Inmarsat company. An intergovernmental organization continues to oversee the new Inmarsat company to ensure fulfillment of public service obligations relating to maritime distress and safety communication services. The status of Signatory thereby ceased to exist and the former Inmarsat Signatories, including SWI, received shares in the new Inmarsat company proportionate to their previous investment shares in Inmarsat.

Access to Inmarsat space segment is now governed by land earth station operator agreements entered into between former Signatories operating LESs and the new Inmarsat company. Pursuant to the LES operator agreements, LES operators wishing to offer Inmarsat satellite services must receive authorization from the new Inmarsat company. The new Inmarsat company also has the right to authorize parties other than former Signatories to construct LESs to provide Inmarsat satellite services and to enter into LES operator agreements with those LES operators.

### U.S. Regulatory Environment & Licensing

Stratos provides services in the U.S. through its subsidiaries Stratos Mobile Networks (USA) LLC (“Stratos USA”), MCN, Nova-Net, Marine Satellite Services, Inc. (“MSSI”), Stratos Telecom, Inc. (“Stratos Telecom”) and Stratos Offshore Services Company (“Stratos Offshore”).

## *General Regulatory Framework*

The U.S. Federal Communications Commission (“FCC”) is responsible for virtually all aspects of U.S. regulation of telecommunications services provided by private companies, including licensing of services and equipment, assigning of frequencies, regulatory implementation of communications statutes and adjudicating complaints alleging violation of those statutes.

The primary U.S. statutes governing the operations of Stratos subsidiaries are the *Communications Act of 1934* (the “Communications Act”), the *Communications Satellite Act of 1962*, as amended by the *International Maritime Satellite Telecommunications Act of 1978* (the “Maritime Satellite Act”) and the *Open-Market Reorganization for the Betterment of International Telecommunications Act* (“Orbit Act”). The *Communications Act* requires that a provider of facilities-based or resold international telecommunications service obtain authorization from the FCC for the specific service(s) provided. The *Communications Act* requires that an operator of radiocommunication facilities (including satellite earth stations) obtain authorization from the FCC to operate the facilities. Maintenance of required licenses is a condition of providing service in the United States, and the FCC has authority to suspend or revoke licenses for violation of license conditions or other improper conduct.

The *Communications Act* requires telecommunications common carriers to provide services on a non-discriminatory basis and to charge “just and reasonable” rates. The *Communications Act* also requires that most U.S. companies providing interstate telecommunications service to the public contribute approximately 3 percent of end-user revenues to a “universal service” fund that is used to support service to high-cost and under-served customers.

The Orbit Act requires the FCC to grant applications to provide Inmarsat “non-core” services (i.e., Inmarsat services other than global maritime distress and safety services or other existing maritime or aeronautical services for which there are not alternative providers) only if the privatization of Inmarsat has been accomplished in a manner consistent with certain criteria established in the Act. The Orbit Act also authorizes the Commission to condition or deny such applications – and revoke previous authorizations to provide “non-core” services – should the FCC determine that such action is in the public interest.

Individual states in the United States have enacted laws to regulate the provision of local or intrastate telecommunications by carriers operating within the state. Accordingly, Stratos subsidiaries providing local or intrastate telecommunications services in the United States must obtain approval from the relevant state utility commissions prior to providing services in that state. The state utility commissions have the ability to revoke a carrier’s authority to operate in the state for failure of that carrier to adhere to conditions of its authorization or for other improper conduct.

### *Inmarsat Services*

Stratos USA is authorized to provide international Inmarsat services. Stratos USA's authorizations cover Inmarsat A, B, M, Mini-M and Aero services.

### *Dominant Carrier Regulations*

FCC rules and policies require that a U.S. carrier be regulated as "dominant" on international routes to countries in which the carrier has affiliates providing certain telecommunications services. Dominant carrier regulation imposes certain regulatory burdens, including the requirement to file tariffs for services provided on a route on which the carrier is dominant. However, Stratos was recently granted a waiver from the tariff filing requirement for mobile satellite services.

### **Competition**

At present, Stratos is one of the only market participants to offer such a diverse portfolio of multi-network service offerings. However, Stratos faces competition in several of its markets and could face increased competition from newly forming or emerging entities as well as from more established telecommunications organizations that choose to emulate Stratos' business strategy.

Stratos' major competitors by service offered are as follows:

*Inmarsat:* In the Inmarsat marketplace, Stratos faces competition from other former Inmarsat Signatories such as COMSAT (in North America) and Station 12, British Telecom and Telenor (in Europe and Asia). To date, Stratos believes that its entrepreneurial nature and diverse product offerings have given it a competitive advantage over these larger counterparts. In addition, while Stratos competes with resellers, Stratos believes it has a competitive advantage due to its lower cost structure obtained as a result of its Inmarsat LES operator status.

*MSAT:* In the MSAT marketplace, competition presently comes from resellers, but may arise from the network operator TMI if the authority to offer service in the United States it received from the FCC is upheld on appeal.

*VSAT:* In the VSAT marketplace, Stratos faces little competition within its current target market, being the provision of data communications services via middle market networks of 300 sites and below. While larger competitors such as GE and Hughes participate in this market, these competitors have historically focused on markets where the networks are larger (over 1,000 sites).

In addition, liberalization of the Canadian regulatory framework governing the provision of mobile satellite services is expected to provide opportunities for new entrants to offer mobile satellite services in Canada which will compete with those offered by the Stratos, including competitive Inmarsat services.

## **Litigation**

### *Inmarsat A Services*

Prior to September 1997, IDB Mobile and Stratos USA provided fixed-to-mobile Inmarsat A services by acquiring Inmarsat space segment at a high cost from COMSAT (the former U.S. Inmarsat Signatory) and routing the traffic through their LESs in Niles Canyon, California and Staten Island, New York. In September 1997, however, IDB Mobile and Stratos USA began acquiring space segment at a significantly reduced rate through another Inmarsat Signatory. Accordingly, IDB Mobile and Stratos USA currently have a lower cost base for these services than in the past.

COMSAT filed suit on January 28, 1998 against IDB Mobile, Teleglobe Inc. and WorldCom, Inc. (the predecessor of MCI WorldCom, Inc.) in federal district court claiming that IDB Mobile's use of "competitive access" was a breach of contract. Stratos is indemnifying Teleglobe Inc. and MCI WorldCom, Inc. On April 30, 1998, the district court granted IDB Mobile's Motion to Dismiss the lawsuit, holding that IDB Mobile had no contractual obligation to purchase Inmarsat A space segment from COMSAT. COMSAT filed an appeal of this decision with the U.S. Court of Appeals for the Fourth Circuit, which dismissed COMSAT's appeal. COMSAT returned to the district court with a motion for further relief. The district court denied the motion. COMSAT has again appealed this denial to the Fourth Circuit. This appeal is currently pending.

The issue of competitive access is also currently being considered by the FCC. On March 28, 1998, IDB Mobile and Stratos USA petitioned the FCC for a declaratory ruling that competitive access is both permitted under U.S. law and in the public interest. COMSAT alone opposed this petition, which was supported by a number of other carriers, including AT&T Corporation. On January 7, 1999, COMSAT filed an administrative complaint with the FCC claiming that U.S. law and IDB Mobile's FCC authorizations prohibit competitive access and demanding payment for space segment used by IDB Mobile (and purchased from another Signatory) since September, 1997. This complaint is pending. On September 10, 1999, COMSAT filed a similar administrative complaint against Stratos USA, which is also pending. In both the appeal and administrative complaint, COMSAT contends that IDB Mobile owes COMSAT approximately US\$20 million as of October 1, 1999, and that the amount increases daily. Stratos believes that COMSAT's claims are substantially without merit and that in any event, the amounts claimed are significantly in excess of the damages, if any, which may have been suffered by COMSAT. While Stratos does not believe that COMSAT will be successful in opposing IDB Mobile and Stratos USA, under the *Communications Act*, the FCC has the power to suspend and revoke authorizations of a licensee if it believes that the licensee has exceeded its authorization or contravened the conditions attached to it. Without such authorization, a licensee would be unable to provide the licensed services.

### *COMSAT v. U.S. Government*

IDB Mobile provides communication services to the U.S. Government using the Secure Telephone Unit ("STU-III") communications protocol to encrypt communications through the Inmarsat satellite system. COMSAT has taken action against the U.S.

Government and opposed a Stratos FCC application (which has been granted) alleging that the Government is unlawfully using inventions patented by COMSAT in connection to STU-III services.

The Government has asserted that the alleged inventions have not been used or manufactured without license or lawful right, that the patents are invalid, and, if the alleged inventions have been used or manufactured, such use is not actionable as it does not occur in the U.S. While Stratos does not believe that COMSAT will prevail in the Court of Federal Claims action, if it does prevail, it can seek reasonable and entire compensation from the U.S. Government, but may not enjoin the Government's use of IDB Mobile's services. Nevertheless, it is possible that COMSAT's patent might restrict the ability of Stratos' subsidiaries to provide these STU-III INMARSAT services.

#### *U.S. Navy Procurement*

In June 1999, the United States Navy's Space and Naval Warfare Systems Command ("SPAWAR") awarded a five-year indefinite delivery/indefinite quantity contract for Inmarsat-B services to COMSAT. Stratos USA, a wholly owned subsidiary of Stratos, successfully challenged that award in the United States Court of Federal Claims, which ruled in September 1999 that the Navy had not conducted a fair and effective competition in connection with the award to COMSAT and issued an injunction requiring the Navy to conduct another competition for the contract. The Navy and COMSAT appealed that ruling to the Court of Appeals for the Federal Circuit in November 1999, and COMSAT has been continuing to provide Inmarsat service to the Navy under the June 1999 contract in the interim.

As a result of the recompetition ordered by the Court of Federal Claims, Stratos was awarded an indefinite delivery/indefinite quantity by the Navy in January 2000 to provide Inmarsat leased service for the period beginning in January 1, 2001 through June 2004. The Request for Proposals issued by the Navy in connection with the recompetition indicated that performance under that contract was subject to the outcome of the appeal in the Court of Appeals. On April 14, 2000, the Court of Appeals issued an Order stating that the lower court's injunction requiring the recompetition "is vacated and the judgement of the United States Court of Federal Claims is reversed". The Order, which was issued by a three-judge panel of the Court of Appeals, did not provide any reasons for this action and indicated that an opinion explaining the Order would follow "in due course". Stratos has not received any notification from the Navy regarding the effect of the Court of Appeals' Order on the January 2000 contract award.

#### *SAIT v. SWI and IDB Mobile*

SAIT has filed an international arbitration claim contending that SWI and IDB Mobile breached a contract and owe more than US\$8 million in damages. SWI and IDB Mobile are contesting the claim, which is scheduled for hearing in April 2000.

## **Properties**

Stratos owns the property on which its Operations Center is located in St. John's, Newfoundland. Stratos also leases properties in Toronto, Ontario (for its corporate headquarters and marketing department); Bethesda, Maryland; Jupiter, Florida; Weston, Florida; Englewood, Colorado; Staten Island, New York; Niles Canyon, California; Weir, Quebec; Lake Cowichan, British Columbia; and Pennant Point, Nova Scotia and New Orleans, Louisiana.

## **Research and Development**

Stratos utilizes an in-house research and development group to create propriety data systems to enhance its own network. In 1999, Stratos invested approximately \$400,000 in research and development.

## **Employees**

Stratos had 253 employees as at December 31, 1999, compared to 189 as at December 31, 1998. The Company's work force at its Niles Canyon facility is unionized. Other than this, the Company's work force is not unionized.

## **EMERGING BUSINESS**

The emerging business segment, carried on through Aliant Horizons is engaged in computer telephony integration, the delivery of digital television services over high-speed Internet protocol networks, e-commerce, the export of software applications and the delivery of services to the offshore oil and gas industry. This segment also focuses on developing and nurturing new technology-based products and services for sale in Atlantic Canada and around the world. Among Aliant Horizons' subsidiaries and affiliates are a 55.4% ownership in AMI Offshore Inc. ("AMI"), 90% ownership in Aliant Internet LLC, ("AliantNet"), 100% ownership in ConneCTivity Contact Centre Solutions Inc. ("CTI"), 100% ownership in NBTel Global Inc. ("Global") and 39% ownership in iMagicTV Inc. ("iMagic").

Horizons also has minority interests in InfoInterActive Inc., Neuromedia Inc., Salter New Media Ltd., Salter Street Films Limited, TecKnowledge Healthcare Systems Inc. and VoxCom Incorporated ("Voxcom"). These strategic investments allow the Company to pursue complementary initiatives and promising technologies outside its existing operations, sharing knowledge, resources and financing with others. These investments are accounted for using the cost method.

## **General Development of the Business**

In November 1999, AMI acquired K&D Industries Ltd. ("K&D"), a distributor of telecom and industrial equipment for \$2.1 million. This transaction expands AMI's

operations throughout Atlantic Canada, and its customer base, particularly in the offshore oil and gas, telecommunications and construction industries.

In November 1999, AMI also acquired St. John's based SEA Systems Limited ("SEA") and Tubecraft Atlantic Limited ("Tubecraft"), also of St. John's for \$5.6 million. This gave AMI a dominant position in Atlantic Canada's instrumentation and control industry.

In a separate transaction in July 1999, AMI assumed direct responsibility for the operations of Newtech Instruments Limited, a business within the Aliant family focussed on electronic manufacturing.

As part of Aliant's U.S. expansion strategy, AliantNet acquired AcadiaNet, an Internet Service Provider with 6,000 customers located in Ellsworth, Maine for \$2.3 million.

Also during the year, Aliant acquired 13.7% interest in Voxcom for \$7.5 million and invested \$2.8 million to increase its ownership interest in various other portfolio investments.

Aliant Horizons reported revenues of \$61.0 million for the period ended December 31, 1999, compared to \$21.1 million in 1998.

**Emerging Business Operating Results** (*Thousands of dollars*)

	<b>1999</b>	<b>1998</b>	<b>% change</b>
Operating revenue	\$61,033	\$21,059	189.8
Cost of revenues	27,248	8,363	225.8
Amortization	2,849	3,074	(7.3)
Other operating expense	34,440	15,568	121.2
Total operating expense	64,537	27,005	139
Operating income	(3,504)	(5,946)	41.1
EBITDA	4,494	611	635.5
Net income	\$2,651	\$6,005	(55.9)

Net income declined from \$6.0 million to \$2.7 million in 1999. The 1998 results contained an investment gain on the sale of Genesys Telecommunications Laboratories Inc. shares, offset by one-time charges for restructuring subsidiary assets. Excluding these impacts, earnings in 1998 would have been a loss of \$3.1 million. For a complete discussion on the operating results please refer to the document entitled "Management's Discussion and Analysis for the Year Ended December 31, 1999" which is incorporated herein by reference.

## Research and Development

In 1999, Emerging Business group spent approximately \$1.5 million on research and development.

## Employees

As at December 31, 1999, the emerging business segment had 474 employees.

## ITEM 4 SELECTED CONSOLIDATED FINANCIAL INFORMATION

### Five Year Summary

As at December 31 (1)					
(Thousands of Dollars, except per share amounts)					
	1999	1998	1997	1996	1995
Total operating revenues(2)	\$2,026,338	\$1,723,772	\$1,610,079	\$1,373,906	\$1,284,990
Total operating expenses(2)	1,570,506	1,313,135	1,227,564	1,014,498	970,648
Restructuring costs	78,000	-	-	-	-
Other income	26,216	10,875	2,903	6,903	10,504
Interest charges	122,734	108,036	109,659	121,829	131,297
Income taxes	134,374	140,793	128,545	116,432	95,151
Non-controlling interest	(1,290)	974	730	416	220
Net income before extraordinary item	148,230	171,709	146,484	127,634	98,178
Extraordinary item	-	-	(344,335)	-	-
Net Income	148,230	171,709	(197,851)	127,634	98,178
Total assets	2,874,956	2,676,991	2,461,326	3,096,036	3,116,147
Long term debt (including debt due within one year)	1,187,573	1,107,546	1,023,448	1,014,177	1,139,873
Shareholders' equity	1,105,800	1,041,616	941,596	1,268,529	1,222,506
Non-controlling interest	34,867	36,882	2,329	1,599	1,183
Earnings from continuing operations per average common share (3)	1.46	1.26	1.17	1.03	0.81
Earnings (loss) per average common share	1.17	1.36	(1.58)	1.03	0.81
Dividends declared per common share	0.83	0.75	0.74	0.74	0.74

#### Notes to five year summary

(1) The combination has been accounted for in these financial statements by the pooling of interests method, that is by combining the historical carrying values of the assets, liabilities, and shareholder's equity and historical operating results of the predecessor companies. (2) Revenues and expenses for 1997 and later years have been restated to report gross revenues from settlements and contribution. Consequently, revenue and expense growth in 1997 is distorted. (3) Before restructuring charges and other one-time items.

## Two Year Quarterly Summary

(Thousands of Dollars, except per share amounts)			
	<b>Operating Revenues</b>	<b>Net Income before extraordinary items</b>	<b>Earnings Per Common Share</b>
1999 - 1st Quarter	\$475,584	\$34,735	\$0.28
2 <sup>nd</sup> Quarter	511,990	56,105	0.44
3 <sup>rd</sup> Quarter	516,321	7,365 <sup>(1)</sup>	(1)0.06
4 <sup>th</sup> Quarter	522,443	50,025	0.40
1998 - 1st Quarter	\$389,196	\$36,824	\$0.29
2 <sup>nd</sup> Quarter	436,842	69,231	0.55
3 <sup>rd</sup> Quarter	439,208	39,474	0.31
4 <sup>th</sup> Quarter	458,526	26,176	0.21

Note: (1) In the third quarter of 1999, Aliant recorded a one-time restructuring charge of \$78.0 million (\$42.5 million after-tax). There were no extraordinary items over the two-year period.

### Dividend Policy

Aliant intends to pay dividends based upon its earnings level and capital requirements. Aliant intends to achieve a dividend payout level, as a proportion of net income, that is consistent with its growth agenda. Any payments will be at the discretion of the Board of Directors based on the factors set out above and such factors as the Board of Directors consider relevant. The current dividend rate is \$0.90 per annum.

### ITEM 5 MANGEMENT’S DISCUSSION AND ANALYSIS

The Company’s document entitled “Management’s Discussion and Analysis for the Year Ended December 31, 1999” is incorporated herein by reference.

### ITEM 6 MARKET FOR SECURITIES

Aliant’s common shares are publicly traded on The Toronto Stock Exchange under the symbol “AIT”.

## ITEM 7 DIRECTORS AND OFFICERS

The name, municipality of residence and principal occupation for each of the Directors of Aliant appear below. The percentage of common shares beneficially owned or controlled by the directors and senior officers is detailed in the Notice of annual meeting of shareholders and information circular, which incorporated herein by reference. The Company does not have an executive committee of its board of directors. The Corporation does, however, have an audit committee. The directors of Aliant are as follows:

<b><u>Name / Director Since</u></b>	<b><u>Residence</u></b>	<b><u>Principal Occupation</u></b>
Miller H. Ayre* April 22, 1999	St. John's, Newfoundland	Publisher, The Telegram (Publishing)
J. Charles Caty April 22, 1999	Oakville, Ontario	Corporate Director
Lino J. Celeste* April 22, 1999	Saint John, New Brunswick	Chairman of the Board of the Corporation
Robert P. Dexter, Q.C.* April 22, 1999	Halifax, Nova Scotia	Chairman and Chief Executive Officer, Maritime Marlin Travel (Group) Limited (Travel Agency)
Ivan E. H. Duvar April 22, 1999	Halifax, Nova Scotia	Corporate Director
Albert E. P. Hickman April 22, 1999	St. John's, Newfoundland	Chairman and President Hickman Motors Limited (Automotive sales and service)
Edward Reevey* April 22, 1999	Rochesay, New Brunswick	Chairman and Chief Executive Officer Addee Developments Limited (Private holding corporation)
Randall J. Reynolds April 22, 1999	Thornhill, Ontario	President, Bell Canada (Ontario)
Alan K. Scales, Q.C. April 22, 1999	Charlottetown, Prince Edward Island	Partner, Stewart McKelvey Striling Scales (Law Firm)
C. Wesley M. Scott* June 23, 1999	Toronto, Ontario	Vice Chairman, Bell Canada Enterprises Inc. (Telecommunications)
Donald C. R. Sobey April 22, 1999	Trenton, Nova Scotia	Chairman, Empire Company Limited (Holding Company)
Stephen G. Wetmore April 22, 1999	St. John's, Newfoundland	President and Chief Executive Officer of the Corporation
Charles W. White Q.C. April 22, 1999	St. John's, Newfoundland	Partner, White Ottenheimer & Baker (Law Firm)

\* Audit Committee Member

With the exception of the following individuals, all of the directors have been employed in the designated principal occupation for the preceding five years:

Mr. Ayre is currently publisher of The Telegram, St. John's. Prior to this he was group Publisher and Chief Executive Officer of Thompson Newfoundland, prior to which he was Publisher and General Manager of The Evening Telegram. Prior to this he was Chairman, President and Chief Executive Officer of Ayre & Sons Limited.

Mr Reynolds is President of Bell Canada (Ontario), prior to which he was President of and Chief Executive Officer of BCE Mobile Communications Inc. Prior to which he held a number of positions within the Bell Mobility family.

Mr. Scott has been Vice Chairman of Bell Canada Enterprises since February 1999, prior to which he was Executive Vice-President and Chief Financial Officer of Northern Telecom.

Prior to Mr. Wetmore's appointment as President and Chief Executive Officer of Aliant on April 22, 1999, was President and Chief Executive officer of NewTel Enterprises Limited and Chief Executive Officer of NewTel Communications Inc. Prior to this he was President of Smart Capital Resources Inc. from 1997, prior to which he was president of Air Atlantic (1994) Ltd. from 1995 to 1997.

The officers of Aliant are as follows:

<b><u>Name</u></b>	<b><u>Residence</u></b>	<b><u>Position Held</u></b>
Lino J. Celeste	Saint John, New Brunswick	Chairman
Stephen G. Wetmore	St. John's, Newfoundland	President and Chief Executive Officer
Colin Latham	Halifax, Nova Scotia	Executive Vice President and President, Telecommunications
Gerald L. Pond	Rothesay, New Brunswick	Executive Vice President and President, Information Technology and Emerging Business
Robert H. Benson	St. John's, Newfoundland	Executive Vice President and Chief Financial Officer
William H. Steeves	Saint John, New Brunswick	Vice President Corporate Services
Barrie H. Black	Saint John, New Brunswick	General Counsel and Corporate Secretary
G. Reid Parker	Saint John, New Brunswick	Treasurer

Prior to the Combination, each of the Officers held the following positions:

Prior to Mr. Celeste's appointment as Chairman, he was Chairman of Bruncor Inc.

Prior Mr. Latham's appointment as Executive Vice President and President, Telecommunications, he was President and CEO of Maritime Telegraph and Telephone Company, Limited.

Prior to Mr. Pond's appointment as Executive Vice President and President, Information Technology and Emerging Business, he was President and CEO of Bruncor Inc.

Prior to Mr. Benson's appointment as Executive Vice President and Chief Financial Officer, he was Executive Vice President and Chief Financial Officer of NewTel Enterprises Inc.

Prior to Mr. Steeves's appointment as Vice President Corporate Services, he was Chief Financial Officer and Vice President of Corporate Services of Bruncor Inc.

Prior to Mr. Black's appointment as General Counsel and Corporate Secretary, he was General Counsel and Corporate Secretary of Bruncor Inc.

Prior to Mr. Parker's appointment as Treasurer, he was Treasurer of Bruncor Inc.

## **ITEM 8 ADDITIONAL INFORMATION**

The Company will provide to any person, upon request to the Corporate Secretary, One Brunswick Square, 18<sup>th</sup> Floor, P.O. Box 5030, Saint John, New Brunswick, E2L 4L4:

- a) when the securities of the Company are in the course of distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of securities, the following information:
  - i) a copy of the Annual Information Form, together with any document incorporated herein by reference in the Annual Information Form,
  - ii) a copy of the comparative financial statements for the most recently completed financial year together with the accompanying report of the auditor and a copy of any interim financial statements subsequent to the financial statements for its most recently completed financial year,
  - iii) a copy of the information circular for the most recent annual meeting of shareholders,
  - iv) a copy of any other documents that are incorporated by reference into the preliminary short form prospectus or short form prospectus;

- b) or at any other time, a copy of any documents referred to in (1)(a)(i), (ii) and (iii) above.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's information circular for its most recent annual meeting of shareholders. Additional financial information is available in the Companies comparative financial statements for years ended December 31, 1999 and 1998.