

It's all about change

Annual report 2001



It's all about change

Our customers are changing. Our company is changing.

Our vision remains the same.

The needs of our customers are changing. More than ever, they want to communicate instantly. They want convenience, choice and whole solutions. As our customers change, we will change too. Our goal is to offer customers the best services and to provide shareholders the best return on investment.

On the cover: Donna McIlveen, Aliant Telecom customer and second-year business student, University of New Brunswick, Saint John



*I want to talk to
people not places*
4

*I want convenience
and choice*
6

*I want whole
solutions*
8

Financial highlights

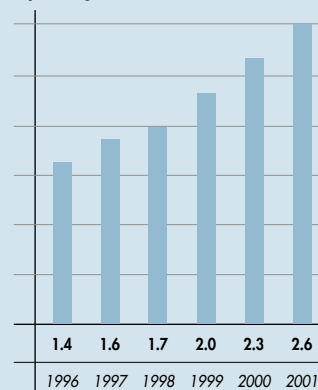
Revenues up 14%

(dollars in millions except per share amounts)	2001	2000	% change
Operations			
Operating revenues	\$ 2,602	\$ 2,274	14.4
Operating expenses ¹	\$ 2,064	\$ 1,773	16.4
EBITDA ^{1,2}	\$ 977	\$ 861	13.5
Net income ¹	\$ 177	\$ 217	(18.4)
Earnings per common share ¹	\$ 1.31	\$ 1.65	(20.6)
Return on common equity ¹	12.8%	17.7%	(27.7)
Financial position			
Total assets	\$ 3,692	\$ 3,730	(1.0)
Long-term debt (including current portion)	\$ 1,546	\$ 1,568	(1.4)
Common shareholders' equity	\$ 1,600	\$ 1,343	19.1
Operating cash flow per share ¹	\$ 4.10	\$ 4.15	(1.2)
Shareholder statistics			
Year-end stock price	\$ 29.98	\$ 33.35	(10.1)
Price/earnings ratio (December 31)	22.9	20.2	13.3
Average number of common shares outstanding (thousands)	135,615	131,662	3.0
Other information			
Capital expenditures	\$ 466	\$ 438	6.4
Network access services – landlines (thousands)	1,550	1,555	(0.3)
Network access services – cellular (thousands)	478	390	22.6
Internet subscribers (thousands)	263	212	24.1
Long distance conversation minutes (millions)	3,497	3,290	6.3
Employees (December 31)	10,621	10,486	1.3

¹ excluding restructuring charge

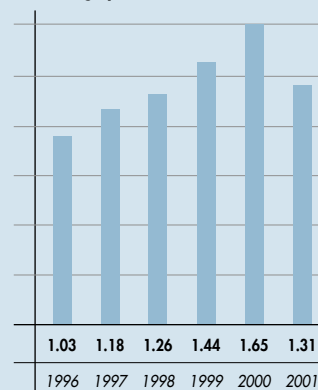
² EBITDA is defined by the company as operating income plus depreciation and amortization expense. The company has included information concerning EBITDA because it believes that it is used by certain investors as one measure of the company's financial performance. EBITDA is not a measure of financial performance under Canadian generally accepted accounting principles and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian generally accepted accounting principles) as a measure of liquidity.

Operating revenues (billions of dollars)



Growth in our telecommunications and remote communications lines of business pushed revenues to \$2.6 billion, up 14.4% over 2000.

Earnings per common share from continuing operations (dollars)



Higher interest, depreciation and amortization charges reduced earnings per share in 2001 to \$1.31 (excluding a restructuring charge), a 20.6% reduction over 2000.

Revenues up 14% ~ ~ ~ ~ ~	1	Representing shareholders ~ ~ ~ ~ ~	11
Financial highlights		Directors	
Four lines of business working as one ~ ~ ~ ~ ~	foldout	Team leaders ~ ~ ~ ~ ~	12
Aliant at a glance		Management	
Change is a certainty in our business ~ ~ ~ ~ ~	2	Results in detail ~ ~ ~ ~ ~	13
Letter to shareholders		Financial table of contents	
Message from the chairman		Past performance ~ ~ ~ ~ ~	51
Our customers		Six-year review	
I want to talk to people not places ~ ~ ~ ~ ~	4	Owning AIT ~ ~ ~ ~ ~	52
I want convenience and choice ~ ~ ~ ~ ~	6	Shareholders	
I want whole solutions ~ ~ ~ ~ ~	8	Words we use ~ ~ ~ ~ ~	53
In the community ~ ~ ~ ~ ~	10	Glossary of terms	
I want to help			

Aliant at a glance

Four lines of business working as one

Services	Corporate brands	Customers	Competitors	2001 performance
Telecommunications				
Local telephone (including local data access)	Island Tel, MTT, NBTel, NewTel	1.5 million network accesses 98% of the market in Atlantic Canada	EastLink, Group Telecom, AT&T Canada	Revenues up 1.8% Network accesses down 0.3%
Long distance	Island Tel, MTT, NBTel, NewTel	122 call centres 89% of the long distance market in Atlantic Canada	Over 30 long distance competitors including Sprint, AT&T, EastLink	Revenues down 7.1% Conversation minutes up 6.3%
Wireless (cellular, paging, mobile)	Island Tel Mobility, MTT Mobility, NBTel Mobility, NewTel Mobility, Ocean Cell, WireFree™	Almost 478,000 cellular and 58,000 paging customers in Atlantic Canada	Rogers/AT&T, Telus Mobility	Revenues up 15.5% Cellular customers up 22.6%
Internet and interactive television	Island Tel, MTT, NBTel, NewTel, Mpowered™, NBNet™, Sympatico™, Vibe™, VibeVision™	Almost 195,000 dial-up and 68,000 high-speed Internet customers and 3,300 interactive TV customers	Sprint, AOL, Rogers Cable, Shaw Cable, EastLink	Dial-up customers up 10.6% High-speed customers up 87.9%
Information technology				
Systems integration/software engineering/ infrastructure services	xwave	Corporate and government customers in Canada, United States and Europe	CGI, Cognicase, Compaq Global Services, DMR, EDS, GE Capital IT Solutions, IBM Global Services, MDA, Montage DMC, Sierra Systems, Telus National Systems	Revenues up 6%
Fulfillment solutions	xwave	Corporate and government customers in Canada	NexInnovations, GE Capital IT Solutions, Dell, Compugen Systems, Metafore, Insight Canada, MicroAge	Revenues up 28%
Remote communications				
Remote communications	Stratos	High-volume government and industrial customers around the world	Station 12/Telstra, Telenor (COMSAT), France Telecom	Revenues up 154%
Emerging business				
Online government services	Innovatia, NterWeb	Service providers and their government partners including Eircom, Aliant Telecom	IVR and web-based service providers such as ezgov, Edify, Vignette, Telera	Revenues down 50%
Interactive television software	Innovatia, GENIUM	Service providers offering interactive television	Competitors offering TV and PC portals including Microsoft, Liberate, AOL	Revenues up 34% Integrated into Aliant Telecom Broadband in 2001
Research and development	Innovatia, LivingLAB™	Companies around the world including Voice Mobility, Alcatel, Harmonic	No direct comparable businesses exist	Revenues up 19%
E-learning	Innovatia	Nortel Networks	Hundreds of companies including traditional learning and e-learning institutions – DigitalThink, Click2Learn, SmartForce, Global Knowledge Networks	Revenues up 66%
Managed networks solutions	Innovatia	Service providers around the world	Managed networks service providers such as NUVO, Netsolve, Qnetix	New division in late 2001
Internet-based local services	Prexar	Almost 32,000 Internet customers in Maine and New Hampshire	Local competitors include Mid Main, Great Works National competitors include AOL/Time Warner, Adelphia, Earthlink	Two acquisitions in 2001
Technical services, supply chain management, instrumentation and control systems, contract manufacturing	AMI Offshore, K&D Pratt, SEA Systems, NewTech Instruments, ASCO	Offshore oil and gas industry, telecommunications, other industrial customers	Broad-based competitive environment	Expanded into the Gulf of Mexico and Brazil markets

Letter to shareholders

Change is a certainty in our business

Change. It's everywhere in our world today. It's within our industry, it surrounds our company, and it's driven by ever-changing needs of customers. How companies deal with change influences service to customers and return to shareholders. It's also a good indicator of a company's long-term success.

At Aliant, we're embracing change. We are working to anticipate the evolving nature of communications and to develop new, leading-edge technologies to improve the services we offer customers.

2001 proved to be a year of incredible change. Management guided the company through an industry downturn, regulatory changes and economic uncertainties. We saw senior leadership changes as Gerry Pond and Colin Latham retired from Aliant Telecom's executive team. Their value to our organization has been tremendous. During the year, we also welcomed Jay Forbes as executive vice president and chief financial officer of Aliant Inc.

Beginning in March, I will be taking on a new role within Bell Canada Holdings and am looking forward to a continued partnership with Aliant. I have greatly enjoyed my years with the company and am confident in the senior management team and its strategy.

Even in the face of our ever-changing environment, we positioned the company for the future. We further integrated our operations, expanded into new markets, and strengthened our partnerships with industry leaders. We also took steps to build on the efficiencies generated by the 1999 merger. Although the actions resulted in a \$111 million restructuring charge, we expect to



Stephen Wetmore, President and CEO

generate second-stage cost savings, estimated to be \$56 million annually (pre-tax) by early 2002.

For the year 2001, Aliant's consolidated revenues increased by 14 per cent to \$2.6 billion. EBITDA also grew by 14 per cent to \$977 million, excluding the restructuring charge. Each of Aliant's four lines of business performed well.

Aliant Telecom revenues increased 3.6 per cent to \$1.85 billion driven primarily by growth in wireless and Internet. In 2001, cellular customers grew by



Message from the chairman

Stephen has provided exceptional leadership

As of the writing of this report to shareholders, your board of directors is engaged in the process of determining a successor to president and CEO Stephen Wetmore who is joining Bell Canada as vice chair, corporate, in March. The board appointed Jay Forbes acting chief executive officer. As part of his new responsibilities within the BCE family we are pleased that Stephen will remain a director of Aliant, and a director of Stratos Global.

23 per cent. High-speed Internet customers grew by 88 per cent and dial-up customers increased by 11 per cent. Our information technology business, xwave, grew revenues to \$374 million – a 13 per cent increase over 2000. Stratos' remote communications networks are also driving growth. Revenues rose by 154 per cent to \$451 million due to acquisitions and to organic growth of 18 per cent. Emerging Business continues to serve Aliant well by providing innovative solutions for Aliant Telecom and for export to service providers worldwide. The downturn in the technology sector dragged down revenues by 14 per cent to \$129 million.

This year we also moved forward with plans to improve our growth opportunities by strengthening ties with Bell Canada. This relationship will enable Aliant to improve service to customers, enhance our product line and access new markets. In December we welcomed Roch Dubé as president, Aliant Telecom. Roch brings extensive experience in the telecommunications and IT industries, and his knowledge of Bell Canada will help strengthen our partnership.

As important as it is to partner with industry leaders, it is equally important for our lines of business to partner with each other. We are creating additional value through our Aliant Premium™ strategy, which generated more than \$60 million in revenues this year. Our Premium strategy allows us to apply an innovative and flexible approach to growth – changing as our customers do to meet their diverse requirements for integrated communications solutions.

Through a three-fold approach, Aliant strives to grow business and deliver increased value to shareholders. First, we ensure that Aliant maintains and develops its individual companies as industry leaders in their own sectors. Second, we leverage our various assets by collaborating across our lines of business to bring highly integrated solutions to key global markets. And third, we manage our portfolio of assets effectively, acquiring and divesting of investments to maximize returns and to remain competitive.

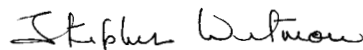
To deliver on this strategy, we've appointed a new generation of leadership, energized and capable

of producing continued success. Our world-class team of more than 10,500 employees is applying its talents to engineer fresh and consumer-friendly technology that will increase choice and convenience for customers.

As Aliant moves ahead, we look forward to economic recovery with cautious optimism. I am confident your leaders will continue to exercise the judgment and trusted financial management shareholders, customers

FOR THE YEAR 2001, ALIANT'S
CONSOLIDATED REVENUES GREW BY 14% TO
\$2.6
BILLION. EACH OF OUR FOUR LINES
OF BUSINESS PERFORMED WELL.

and employees have come to expect. We will remain focused on our growth strategy and work hard to deliver increased value to our shareholders. Through our dedication to excellence we will continue to create the innovative changes our customers want.



Stephen Wetmore
President and Chief Executive Officer
February 2002

Stephen led Canada's first-ever four-way merger that created Aliant, and has done a superb job in managing our company and setting it on a course for growth. Under his direction we have advanced the interests of our shareholders, enhanced the value of your company, and delivered superior performance.

The board wishes to express to Stephen our appreciation for his dedication, counsel, and exceptional leadership. We wish him well as he starts another stage in his career.



Charles White, QC
Chairman

Our customers

I want to talk to people not places



Trevor Weissent,
Secunda Marine Services

"Point-to-point communications is no longer enough. Our vessels' crews need to be able to reach shore personnel directly whether we are in the office, at home or on the road."

Demand for wireless services is growing as people increasingly want to keep in touch while pursuing active lifestyles. Whether at home, in the office, or on the move, people want to connect with each other instantly more than ever before. Aliant Telecom's wireless solutions for consumers and businesses are meeting the demand.

As traditional wireline services like local and long distance reach maturity, we're preparing for wireless services to be a primary driver of growth in the years ahead. In 2001 we invested more than \$65 million to expand and improve our digital and analog wireless networks throughout Atlantic Canada. At year end, our cellular customers numbered more than 477,500, reflecting solid growth of 23 per cent.

The tremendous increase in digital phone activations – up 152 per cent last year – provides strong evidence that people want more out of their wireless connection. Through Aliant Telecom's rich digital network, customers in our serving areas can access the Internet when using a Web/data capable phone. We're also providing convenient call management features like call display, visual call waiting, call forward and message waiting indication as part of our rate packages.

In addition to phone and paging services, our suite has grown to include the latest in hand-held personal digital assistants and electronic organizers, like the popular *Blackberry*.™ This device is revolutionizing wireless communications, making email as easy to get and send as a phone call. These value-add offerings that extend the benefits of wireless mobile services helped Aliant Telecom maintain industry-leading market share at 75 per cent, and grow revenues by 16 per cent in 2001.

Our wireless solutions are also helping business customers who need to stay connected around the world. Stratos, Aliant's remote communications company, has steadily grown its wireless networks and capabilities over the past five years by strategically acquiring and effectively consolidating nine companies.

Leading companies like Halifax-based Secunda Marine Services, which operates in offshore support and sub sea cable laying, trust Stratos for voice, fax, and email

connections – including their emergency distress systems.

Fleets the world over use Stratos. In December, the United States Navy Space and Naval Warfare System Command awarded Stratos a US\$137 million five-year contract,

renewable annually, for global, leased satellite bandwidth aboard Navy ships.

While connecting people from the middle of the ocean through ship-to-shore solutions, Stratos' technology also reaches into the sky to provide air-to-ground/ground-to-air voice and data communications for a number of commercial airlines, including British Airways through its Skyphone service. This year, Stratos announced

THE TREMENDOUS INCREASE IN DIGITAL

CELLULAR PHONE ACTIVATIONS IN 2001 – UP

152%

– PROVIDES STRONG EVIDENCE PEOPLE WANT

MORE OUT OF THEIR WIRELESS CONNECTION.

a long-term partnership with a leading provider of communications and information technology for the transportation industry. Through this new alliance, Stratos will upgrade systems that deliver critical messages to thousands of aircraft across the continental United States – accommodating both aeronautical operational control and air traffic control communications via a satellite air-to-ground link. This enables real-time communications among aircraft, aviation authorities, and airline host computer systems located anywhere in the United States.

Connecting from remote land locations is proving to be another significant area of growth for Stratos. When major broadcasters like BBC send reporters into the field continents away, they rely on Stratos. Through a briefcase-sized video-enabled satellite phone, users access Stratos' network via a portable GAN terminal and INMARSAT's network of satellites to transmit live signals back home to millions of viewers.

Stratos revenues jumped 154 per cent in 2001, building on its designation as North America's sixth-fastest growing technology company. The team at Stratos continues to respond to change in the industry by turning opportunity into reality through a variety of wireless IP, data, and voice solutions for growing markets around the world.



Secure and reliable communications are essential for Trevor Weissent of Secunda Marine Services. Whether Secunda's vessels are emailing log reports to head office in Dartmouth, Nova Scotia, or simply calling ahead to coordinate docking, Stratos satellite solutions keep crews in constant contact while at sea.

Our customers

I want convenience and choice



Donna McIlveen,
university student

"With my course load and part-time job, every minute is precious. I need the convenience and speed of researching assignments online. And the day-to-day things like keeping up with friends who live away would never get done if not for high-speed Internet service."

In our ever-changing business, we take concepts like convenience and choice seriously. Whether through customer service or product development, we're striving to add value to our customers' increasingly fast-paced lives. New customers like Donna McIlveen are helping us take leading-edge communications to the next level by embracing advances in technology.

By offering Internet applications to do such everyday things as plan vacations, pay bills and register a vehicle, we're helping our customers free up more time to enjoy the important things in life.

In 2001 revenues from our Internet services increased 43 per cent, and we grew our customer base to more than 262,000. While dial-up remains a strong choice with 11 per cent growth, our high-speed Internet customers are subscribing in unprecedented numbers – with an 88 per cent increase last year alone.

As the premier Internet service provider in Atlantic Canada, approximately 7 out of 10 Atlantic Canadians choose Aliant Telecom for their Internet connection. We're working hard to meet the growing demand, by expanding our broadband network. High-speed capability is now available to 57 per cent of Atlantic Canadians, passing 506,000 homes across Newfoundland and Labrador, New Brunswick, Nova Scotia and Prince Edward Island.

We're also investing in new technologies to give Atlantic Canadians more out of their Aliant Telecom high-speed Internet connection. Last year we expanded our Internet-based interactive digital television service, *VibeVision*, to Halifax. *VibeVision* is giving customers a unique opportunity to experience the world's latest technology, while providing Aliant Telecom with a strong competitive advantage. It is the only interactive digital service of its kind available in the market today, offering high-quality digital television and music channels, Web browsing, email, telephone directory listings and a range of news, weather and sports, all accessible through an interactive television guide.

Building on our proven track record of providing customers with the latest in technology advances, we introduced a breakthrough in technology convergence this year. By testing the limits and capabilities of our robust broadband network, our innovative employees developed software that enables the delivery of high-quality television to personal computers.

This new service is in keeping with our philosophy that technology should be simple to use and easy to understand. Our innovation is a subscription-based application that offers customers who crave the latest in interactivity an enhanced online experience without the fuss of additional tuner cards or expensive software. This intuitive service allows customers to access television, change channels and adjust volume – all from a keyboard and mouse, while interacting with other

IN 2001, REVENUES FROM OUR HIGH-SPEED

AND DIAL-UP INTERNET SERVICES INCREASED

43%

AND WE GREW OUR CUSTOMER

BASE TO MORE THAN 262,000.

content on the Internet and their computer desktop.

With our variety of services on the rise, we're improving the ways in which we package our offerings. *Aliant One* was introduced to the Halifax marketplace this year as a convenient bundle that lets customers deal with a dedicated customer care team and choose from a menu of services – ranging from local and long distance to digital television – all with the benefit of a single bill. The response rates have been impressive. *Aliant One* is not only generating new revenue, and improving overall customer satisfaction and loyalty, but it has driven a 31 per cent increase in the number of customers subscribing to a bundled service package.

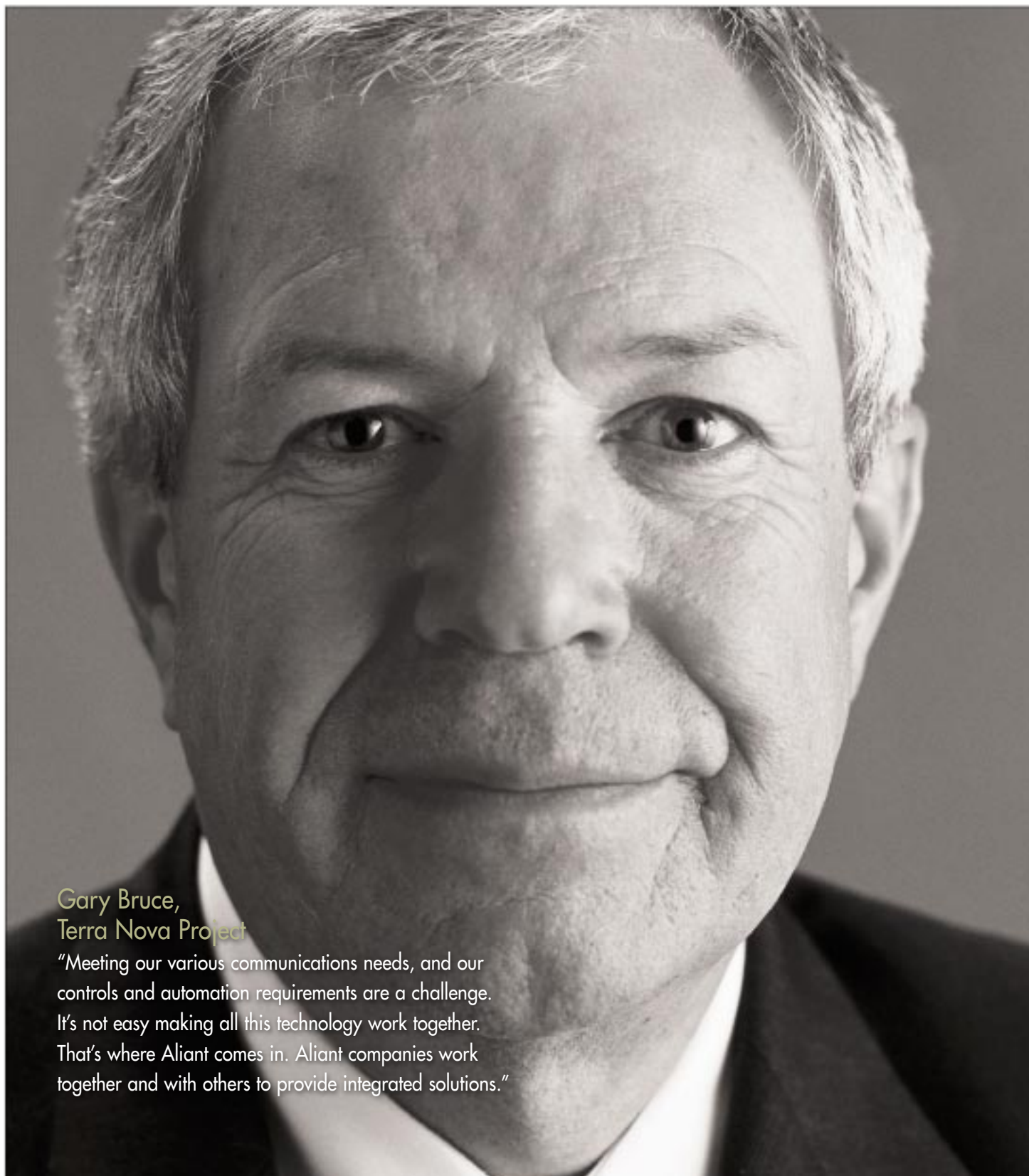
Through innovative approaches to technology and service, we're designing affordable and practical solutions for our customers, while remaining true to our pledge to always deliver the most in convenience and choice. Keeping pace with our customers' changing needs and lifestyles is a challenge we thrive on. Through our desire to be the best, we propel the industry forward by focusing on the things we do extremely well.



Vibe high-speed Internet service makes course registration and studying easier for Donna McIlveen, business student at the University of New Brunswick in Saint John. Accessing online support for textbooks cuts down on the time it takes to complete assignments.

Our customers

I want whole solutions



Gary Bruce,
Terra Nova Project

"Meeting our various communications needs, and our controls and automation requirements are a challenge. It's not easy making all this technology work together. That's where Aliant comes in. Aliant companies work together and with others to provide integrated solutions."

Information technology. Communications. Controls and automation. Bringing all of these together is no easy task, but at Aliant we're continuing to look for ways to add value. Working across our lines of business, we are able to deliver highly integrated solutions – making communicating easier for our customers, while maximizing growth and shareholder value.

Through Aliant Energy Services, teams from our various companies are collaborating across lines of business to offer a unique value proposition to customers like the Petro-Canada operated Terra Nova oil project. For Terra Nova, Stratos combines its strength with Aliant Telecom to provide end-to-end integration of voice and data services for Petro-Canada's corporate offices in St. John's, Newfoundland and Labrador, and to the project's vessel and drilling rig. Together, the companies provide 24/7 network management and maintenance supported by experienced onshore and offshore technicians. Another Aliant company, SEA Systems Limited, implemented the control and safety systems for Terra Nova, and continues to provide ongoing maintenance support.

In 2001, Aliant Energy Services expanded its operations to Houston, Texas, to help open more doors in the oil and gas sector. Building upon its successful approach in Atlantic Canada, our American division, AE Services, is bringing together the resources of Stratos, Innovatia, xwave and SEA Systems to provide integrated solutions to customers in the Gulf of Mexico.

In addition to the efforts of Aliant Energy Services, other Aliant companies are also working together to provide customers with more complete, end-to-end services. xwave, Innovatia and Aliant Telecom worked together in 2001 to make patrolling the waters off Quebec and the Maritime Provinces a lot more efficient for the Department of Fisheries and Oceans. Fishermen are required by law to "hail" or call in prior to sailing in order to allow enough time for authorities to determine when and if a fisheries observer is needed. But with up to 500 calls per night, this can be difficult to organize without the right technology solution.

In just 49 days, xwave built a solution we call Vessel Hail, which enables fishermen to record their departure times directly into a computer database by using the keypad on a telephone. The system, built on Innovatia's NterWeb platform

and operated by Aliant Telecom on behalf of the government, gives the Department of Fisheries and Oceans immediate access to the location, time and type of fishing vessels through their computers – helping them make accurate decisions and record more precise information.

In the customer service and contact market, Aliant Telecom's turn-key solutions have enticed more than

BY OFFERING OUR CUSTOMERS INTEGRATED

SOLUTIONS WE HAVE ATTRACTED MORE THAN

100

INDUSTRY LEADERS TO OUR CUSTOMER CONTACT

"CENTRE OF EXCELLENCE" IN ATLANTIC CANADA.

100 industry-leading companies to set up their customer contact centres in Atlantic Canada. Our team takes care of everything required from real estate and physical equipment, to communications and IT services.

Now, Aliant Telecom is connecting with xwave to add helpdesk support and hardware expertise to the already integrated range of services offered. register.com, the second largest domain name registering company in the United States, used both Aliant Telecom's turn-key solutions and the hardware expertise of xwave to set up operations in Yarmouth, Nova Scotia, last year.

Creating additional value is the Aliant *Premium* in action. And this is just the beginning. Our cross-functional teams are aggressively pursuing more than \$100 million in opportunities for the coming year. Together, we are focused on staying ahead of the competition by creating unique value for customers and generating increased shareholder value.



The Terra Nova FPSO (floating, production, storage and offloading) is the first of its kind in North America. It was built especially for the Terra Nova oil project on Canada's East Coast. Aliant supports the project with communications, and controls and automation systems.

In the community

I want to help

At Aliant, we want to help. In 2001, we invested more than \$4 million in Atlantic Canada. In addition to cash and in-kind services, Aliant's official volunteer association, Aliant Pioneers, donated 160,000 hours of volunteer time. Our ongoing commitment to education, health, arts and culture, community and sports is reflected in the charities, organizations and events we supported in 2001. Following is a partial list.

2001 Canadian Sr. Mens' Baseball
Aliant Cup (*golf*)
Aliant Pioneers Signature Programs
 Computers for Schools
 A Book About Me
 Hug-A-Bears
 Heart Pillows
American Hockey League
Atlantic Film Festival
Atlantic Jazz Festival
Boy Scout Jamboree (Canadian)
Canadian Breast Cancer Foundation
Canadian Cancer Society – Cops for Cancer Cycle Tour
Canadian National Institute for the Blind
Canadian Junior National Swim Meet
Cavendish Farms PeeWee Baseball Championships
Chaleur Regional Hospital Foundation
College of Piping
Community Food Sharing Association
East Coast Music Awards
First Steps Housing Project
IslandTel International Buskers Festival
ITU World Cup Triathlon
Junior Achievement – Economics of Staying in School program
Juvenile Diabetes Research Foundation
Kids Count – The Learning Fund
Kids Help Phone
La Foire Brayonne (*festival*)
Literacy New Brunswick
Lorie Kane RMCC Golf Classic
Marconi – Receiving the World (*festival*)



Taryn MacMillan, daughter of Donna MacMillan, Aliant Telecom

Mermaid Theatre
Mount Allison University
MTT Halifax Dragonboat Festival
MTT Open (*tennis*)
Newfoundland and Labrador Heritage Fairs Programme
Newfoundland Symphony Youth Choir
NewTel Cultural Innovation Fund
Nova Scotia International Air Show
PEI Expo (*tradeshow*)
Prince County Hospital Foundation
Quebec Major Junior Hockey League
Saint John Theatre Company
Symphony New Brunswick, Nova Scotia, PEI
United Way



My wish for a computer came true

Cody MacPhee, Springhill, Nova Scotia

Through a partnership with Aliant, The Children's Wish Foundation is making wishes come true for children coping with illness, like Cody MacPhee, 12, of Springhill, Nova Scotia. Each time a child wishes for a computer, Aliant provides free Internet service and a gateway to a world of information and entertainment. In 2001, Aliant's Pioneers volunteered 1,000 hours for The Children's Wish Foundation fundraisers and the annual Wishmaker's Parade.

Directors

Representing shareholders

Miller Ayre, 60, is publisher of The Telegram in St. John's, Newfoundland and Labrador, and president of Mansbord Incorporated. He is a director of the Institute for Research on Public Policy and a director of the Canadian Labour and Business Centre.^{(1) (2)}

Charles Caty, 61, is chairman of NAL Energy Inc., vice chairman of Market Regulatory Services Inc. and a director of CGU Group Canada Ltd. He is a past president and CEO of the Investment Dealers Association of Canada and a past chairman of the Toronto Stock Exchange.^{(3) (4)}

Lino Celeste, 64, is a director of New Brunswick Power Corporation and Manulife Financial. He is Chairman of the Greater Saint John Community Foundation.⁽⁴⁾

Robert Dexter, QC, 50, is chairman and CEO of Maritime Travel Inc. and a partner with the law firm Stewart McKelvey Stirling Scales. He is a director of Empire Company, Sobeys Inc., Highliner Foods, Maritime Life Assurance Company and Wajax Limited.^{(1) (4)}

Ivan Duvar, 62, is president and CEO of MIJAC Inc., a private investment company. He is a director of Canadian Imperial Bank of Commerce and several other Canadian companies.⁽³⁾

Albert Hickman, 60, is chairman and president of Hickman Motors. He is a director of Canadian Imperial Bank of Commerce and Churchill Falls (Labrador) Corporation.⁽²⁾

Dr. Margot Northey, 61, is the Dean, Queen's School of Business, Queen's University in Kingston, Ontario. She is a director of Wawanesa Insurance Company, Nexfor Inc., the Laurentian Bank of Canada and several other prominent Canadian businesses.^{(3) (5) (6)}

Edward Reevey, 58, is chairman and CEO of Addee Developments Limited, a private holding company. He is also director of the Greater Saint John Community Foundation.^{(1) (5) (6)}

Randall Reynolds, 49, is president and CEO of Bell Nexxia, a division of Bell Canada that provides integrated telecommunications solutions including high-speed data and Internet services. He is a director of MTS and Bell Intrigna.⁽³⁾

Alan Scales, QC, 67, is counsel with the law firm Stewart McKelvey Stirling Scales in Charlottetown, Prince Edward Island. He is a member of the Order of Canada and a fellow of the American College of Trial Lawyers.⁽²⁾

John Sheridan, 47, is president of Bell Canada. He is responsible for Bell's operations across Canada including Bell Nexxia, Bell Mobility, Bell ExpressVu and Bell ActiMedia. He is a director of Bell Canada, MTS and Ballard Power Inc.⁽⁴⁾

Catherine Tait, 43, is a communications and entertainment consultant. She is chair of the Independent Feature Project, the largest organization of film producers in the United States, and a past president and COO of Salter Street Films. She has served as Canada's Cultural Attaché in Paris.⁽²⁾

Donald Sobey, 67, is chairman of Empire Company, a holding company with interests that include food distribution, real estate and corporate investment. He is a director of Toronto Dominion Bank, Alliance Atlantis and several Atlantic Canadian companies.⁽⁴⁾

Stephen Wetmore, 49, is president and CEO of Aliant Inc. He is a director of Stratos Global Corporation and the Shaw Group. He is a Governor of the Atlantic Provinces Economic Council, University College of Cape Breton and RCS Netherwood school.

Charles White, QC, 54, is chairman of the board of Aliant Inc. and a senior partner with the law firm White, Ottenheimer & Baker. He is chairman and trustee of BMO Mutual Funds and a director of several other Canadian companies.

Committees:

- (1) Audit
- (2) Corporate governance
- (3) Human resources and compensation
- (4) Investment
- (5) Defined benefit pension investment
- (6) Defined contribution pension investment

Management

Team leaders



Barrie Black, 54, is vice president, general counsel and corporate secretary of Aliant Inc. He is responsible for the legal and corporate governance operations of the company. Mr. Black has law degrees from Dalhousie University and from the University of London, England.



Robert Neal, 47, is president of Innovatia. He is responsible for the development and sales of emerging technologies. Mr. Neal began his career with the company in 1979 and has held progressively senior positions in new business development and export, wireless technologies, and IP-based services.



Harry Connors, 52, is vice president, communications and public affairs, of Aliant Inc. He is responsible for enterprise-wide communications. Mr. Connors has served in a variety of advertising, public affairs and government relations roles since joining the company in 1977.



John Prentice, 49, is vice president, corporate development and planning, for Aliant Inc. He is responsible for Aliant's corporate and business development strategy and for coordinating the business objectives of subsidiaries. Mr. Prentice previously held a number of senior management positions with the company.



Roch Dubé, 48, is president of Aliant Telecom and executive vice president of Aliant Inc. Prior to joining Aliant he was president and CEO of Connexim, an outsourcer of network and desktop management services. Since 1993 he has held executive positions with Bell Canada.



David Rathbun, 45, is chief human resources officer. He is responsible for Aliant's human resource strategy including organizational change and development, talent management, learning and knowledge, compensation and employee support. Mr. Rathbun is a member of the Conference Board of Canada.



Jay Forbes, 41, is executive vice president and chief financial officer of Aliant Inc. Previously he was CFO of Oxford Properties Group and senior vice president and CFO of Nova Scotia Power Holdings Incorporated. Mr. Forbes is a member of the Canadian Institute of Chartered Accountants.



Rod Wark, 43, is president and chief operating officer of xwave. He began his career in the information technology industry in 1979. His experience includes senior information management positions with a number of companies including Accenture, Synerlogic Inc., Sobeys Inc., and Home Hardware Ltd.



Doug Kinloch, 51, is president of Aliant Energy Services, an Aliant subsidiary providing integrated communications expertise to customers in the offshore oil and gas industry. Mr. Kinloch has over 20 years of experience in the oil and gas industry, primarily in the North Sea.



Stephen Wetmore, 49, is president and CEO of Aliant Inc. He is a director of Stratos Global Corporation and Aliant Inc. Mr. Wetmore served as president and CEO of NewTel Enterprises from February 1998 until the formation of Aliant in June 1999.

Financials

Results in detail

WE ARE CREATING EXTRA VALUE WITH THE ALIANT

PREMIUM STRATEGY, WHICH GENERATED MORE THAN

\$60

MILLION IN REVENUES THIS YEAR BY ALLOWING US

TO APPLY AN INNOVATIVE APPROACH TO GROWTH.

MD&A ~ ~ ~ ~ ~	14
Management's discussion and analysis	
Responsibility ~ ~ ~ ~ ~	33
Management and auditors' reports	
Statements ~ ~ ~ ~ ~	34
Consolidated balance sheets	
Consolidated statements of income	
Consolidated statements of retained earnings	
Consolidated statements of cash flows	
Statement notes ~ ~ ~ ~ ~	37
Notes to the consolidated financial statements	

Management's discussion and analysis

This document contains statements and information about potential future circumstances and developments. Such statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from Aliant's actual future experience. Aliant disclaims any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

OVERVIEW OF ALIANT'S OPERATIONS

The Aliant Premium strategy

The Aliant Premium strategy reflects Aliant's ability to bring together the expertise of four distinct lines of business through one focal point to deliver end-to-end solutions to key markets. The companies driving Aliant's four lines of business are each leaders in their respective industries. Through its Aliant Premium operating model, Aliant strives to create even greater shareholder value from this collective group of companies by having them work together to develop and deliver integrated communication solutions to satisfy its customers' unique needs. Aliant maximizes its returns by investing in those areas offering additional capability, geographic reach or product breadth and divests of those aspects of the business that are not essential to the delivery of the Premium

solution. The Aliant Premium model is evident through the operations of Aliant Energy Services (AES) which provides integrated solutions to the oil and gas industry.

Aliant Premium model at work

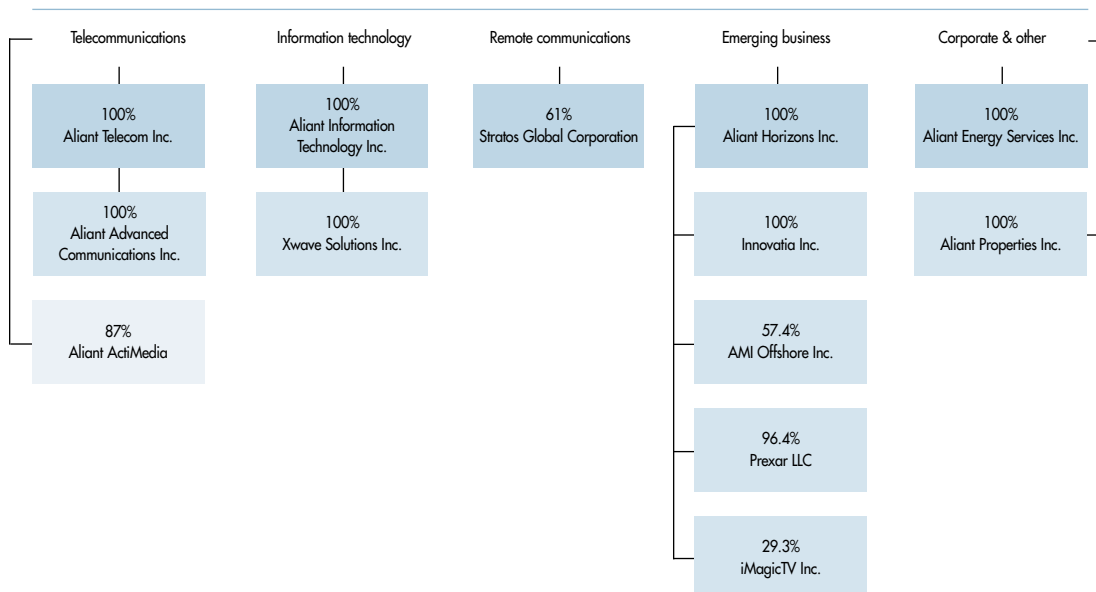
The Aliant Premium strategy currently generates revenues for the Aliant family through two main avenues. Aliant Energy Services is a marketing and sales company that identifies opportunities for all of Aliant's lines of business within the oil and gas sector. Alternatively, Aliant's lines of business work together to provide customized solutions to a variety of customers within Atlantic Canada and around the world. In 2001, Aliant Energy Services was directly responsible for approximately \$10 million in revenues generated by Aliant individual lines of business. In addition, Aliant's businesses worked together to provide integrated solutions to a variety of customers in 2001 which will generate over \$300 million in the next three to five years.

Business of Aliant

Aliant is comprised of four core lines of business: telecommunications, information technology, remote communications and emerging businesses.

The telecommunications line of business is carried on by

ALIANT INC.



Aliant Telecom Inc. (Aliant Telecom). Effective January 1, 2001, Aliant Telecom amalgamated with most of its wholly owned subsidiaries including Island Tel, Maritime Tel & Tel Limited (MTT), NBTel Inc. (NBTel) and NewTel Communications Inc. (NewTel), (collectively the AT&T Telcos) and NewTel Mobility Limited (NewTel Mobility). Measured by revenues, Aliant Telecom is Canada's third largest full-service telecommunications business. Aliant Telecom provides a full range of voice and data communications services including local, long distance, data, Internet, interactive television and other wireline and wireless services. This line of business also includes the results of 87 per cent owned Aliant ActiMedia (formerly TeleDirect Atlantic), a telephone directory advertising business operating in Atlantic Canada.

The information technology line of business is carried out through Xwave Solutions Inc. (xwave). xwave is an established Canadian information technology (IT) services and fulfillment company with offices in the United States and Europe. xwave employs more than 2,800 professionals and is Canada's second largest Canadian-owned information technology services company on a gross revenue basis.

Aliant's investment in the remote communications business is a 61 per cent ownership position in Stratos Global Corporation (Stratos). Stratos is a Canadian-based public company (TSE:SGB) offering mobile and fixed remote communications solutions to a global customer base through a combination of its own satellite and microwave telecommunications facilities, shared infrastructure and distribution of services of other network operators.

The emerging businesses segment is a group of companies under the ownership of Aliant Horizons Inc.

(Aliant Horizons). These companies recognize revenue through several means: licensing of software, consulting services, one-time software sales, the outright sales of investments, transaction revenues, joint developments, and joint ventures. This group's primary operations are through Innovatia Inc. (Innovatia), Prexar LLC (Prexar) and AMI Offshore Inc. (AMI). Innovatia is focused on the research and development of Internet-based services for broadband networks. Innovatia designs, develops and sells Internet-based applications to service providers worldwide. Aliant Horizons owns 96.4 per cent of Prexar, an Internet services provider based in Bangor, Maine and servicing the northern New England States. AMI (57.4 per cent owned by Aliant Horizons) provides process and systems control technical services, logistics and supply chain management and contract manufacturing solutions to the offshore oil and gas and other industries. The emerging business segment also includes a number of portfolio and strategic investments in the Internet and e-commerce area including minority interests in iMagicTV Inc. ("iMagicTV"), Exigen Ltd., and Voice Mobility International Inc. among others. Aliant accounts for its investment in iMagicTV by the equity method, while the other minority investments are accounted for on a cost basis.

Organization

The organization chart shows the Company's four core lines of business, the main corporate entities carrying out those operations, as well as some other corporate investments.

Consolidated results

Aliant Inc. earned consolidated revenues of \$2.6 billion in 2001, growing 14.4 per cent from \$2.3 billion in 2000. Earnings before interest, taxes, depreciation and amortization (EBITDA) and before restructuring costs

Consolidated operating results *(thousands of dollars except per share amounts)*

	2001	2000	% change
Revenues	\$ 2,601,566	\$ 2,274,180	14.4
Cost of revenues	710,639	565,901	25.6
Net operating revenues	1,890,927	1,708,279	10.7
Cash operating expenses	913,890	849,457	7.6
EBITDA ¹ <i>(before restructuring charge)</i>	977,037	860,619	13.5
Restructuring charge	111,237	—	—
EBITDA	865,800	860,619	0.6
Depreciation and amortization	439,368	357,855	22.8
Operating income	426,432	500,967	(14.9)
Other income (expense)	(16,821)	16,872	(199.7)
Interest	157,489	124,387	26.6
Income taxes	145,023	183,890	(21.1)
Non-controlling interest	(13,829)	(7,559)	83.0
Net income	120,928	217,121	(44.3)
Preferred share dividends	6,619	—	—
Net income applicable to common shares	\$ 114,309	\$ 217,121	(47.4)
Earnings per share	\$ 0.84	\$ 1.65	(49.0)
Earnings per share <i>(before restructuring charge)</i>	\$ 1.31	\$ 1.65	(20.6)

¹ EBITDA is defined by the company as operating income plus depreciation and amortization expense. The company has included information concerning EBITDA because it believes that it is used by certain investors as one measure of the company's financial performance. EBITDA is not a measure of financial performance under Canadian generally accepted accounting principles and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian generally accepted accounting principles) as a measure of liquidity.

grew by 13.5 per cent to \$977.0 million. The EBITDA margin (EBITDA as a percentage of revenues) remained stable at 37.6 per cent in 2001 from 37.8 per cent in 2000. Consolidated net income applicable to common shares (before restructuring) was \$177.3 million, or \$1.31 per share in 2001 compared with \$217.1 million and \$1.65 per share for 2000.

Revenue growth of \$327.4 million is the result of \$63.5 million in organic growth in telecommunications and \$273.4 million of organic and acquisition growth in the remote communications line of business. Aliant Telecom contributed \$33.6 million growth in wireless revenue, \$23.7 million growth in Internet revenue and \$20.3

Aliant's 2001 earnings through higher interest, depreciation and goodwill amortization charges.

Aliant recorded a restructuring charge of \$111.2 million during the fourth quarter as the Company continues to accelerate the pace of operating efficiencies resulting from the merger. The charge is comprised primarily of staff severance costs and the cost of consolidating various entities into one operating unit. The charge will result in pre-tax cost savings of approximately \$56 million, expected to be achieved early in 2002.

Quarterly results

Aliant generated consolidated revenues of \$663.9 million for the fourth quarter of 2001, growing \$51.4 million (8 per cent) from the same period in 2000. Revenue growth has slowed from that experienced in the previous three quarters as the impact of acquisitions made in the first half of 2000 lessen, and the organic growth rate of the business becomes more apparent. Stratos accounted for essentially all of the fourth quarter increase, with Aliant Telecom's Wireless and Internet business posting strong revenue growth as well.

EBITDA (before restructuring charges) for the quarter was \$265.2 million, up \$46.0 million (21 per cent) from 2000. Stratos' 154 per cent revenue growth, coupled with strong margin management, created \$22.1 million in EBITDA growth for the quarter. Aliant Telecom enjoyed its strongest growth of 2001 in the quarter, posting a 14.6 per cent increase in EBITDA on the strength of operating cost reductions and revenue growth in its Wireless and Internet businesses.

Earnings per share (before restructuring charges) were down \$0.03 to \$0.42 for the quarter, the smallest shortfall in quarterly earnings for 2001. Strong operating performance and a more conservative balance sheet position both contributed greatly to reducing the gap in year over year performance.

Aliant Inc. operating environment, business trends and outlook

There are issues on the horizon that present challenges for the Company as 2002 approaches. As witnessed by slowing revenue growth, the economic environment has been deteriorating and there is an increasing likelihood that these softer conditions will persist into 2002. In addition, recent contribution and banding decisions by the Canadian Radio-television and Telecommunications

ALIANT INC. EARNED CONSOLIDATED REVENUE OF

\$2.6

BILLION IN 2001, UP 14.4% FROM \$2.3 BILLION IN 2000.

million growth in other telecommunications revenues. Stratos' revenue growth was derived from the successful integration of its 2000 acquisitions of Shell Offshore Services Company Ltd. (SOSCO), Seven Seas Communications, Inc., Seven Seas Communication Systems, Inc., Datacom Inc. and the Aeronautical and Marine Division of British Telecom (BT A&M).

Stratos' 154 per cent revenue growth, coupled with stronger gross and operating margins, contributed \$86.4 million of the \$116.4 million increase in EBITDA. Telecommunications grew 10.9 per cent to \$877.8 million EBITDA in 2001, an increase of \$86.6 million. EBITDA growth in these lines of business was offset by lower EBITDA in IT and Emerging Business as the technology downturn impacted both lines of business significantly.

Earnings per common share before restructuring costs decreased to \$1.31 in 2001 from \$1.65 in 2000. Prior acquisitions and capital investment are impacting

Restructuring charges (thousands of dollars)

	Telecommunications	Information technology	Remote communications	Emerging business	All others	Consolidated
Workforce reductions	\$ 76,448	\$ 4,668	\$ —	\$ 449	\$ 3,771	\$ 85,336
Operational integration and other	\$ —	\$ 21,087	\$ —	\$ 2,585	\$ 2,229	\$ 25,901
Restructuring charge	\$ 76,448	\$ 25,755	\$ —	\$ 3,034	\$ 6,000	\$ 111,237

Workforce reduction costs include severance and pension costs and benefits associated with approximately 800 employees notified of termination.

Operational integration and other represent costs of consolidating systems and services, downsizing business units, terminating contracts as well as streamlining management and administration functions.

Included in accounts payable and accrued liabilities is a provision of \$69 million which will be substantially drawn down during 2002 as the consolidation and integration of operations are complete.

Commission (CRTC) will negatively impact financial results next year. Telecommunications revenue is expected to be reduced by \$110 million, and EBITDA by \$69 million as a result of these decisions. The impact of a fragile economy, when combined with a negative regulatory decisions, poses a significant challenge for 2002.

To better prepare for the challenges and uncertainties of 2002, Aliant announced two major initiatives early in the fourth quarter. The first is a strategic alignment with Bell Canada that should provide significant opportunities for revenue enhancement, expense reduction and capital investment savings. The second initiative is an action plan to reduce costs through an accelerated

integration program across Aliant's operations.

Since the formation of Aliant Telecom in 1999, management initiated a plan to achieve significant operating synergy targets, which have all since been met or surpassed. There has also been significant progress in achieving synergies from acquisitions made by Aliant's lines of business over the last year. Aliant is acting to accelerate long-term plans, advancing the pace of staff reductions and other restructuring initiatives necessary across Aliant's lines of business to increase productivity and reduce operating costs. The cost of this further restructuring is \$111.2 million on a consolidated basis and was taken as a special charge against

Consolidated quarterly statements of earnings (thousands of dollars except per share amounts)

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2001	2000	2001	2000	2001	2000	2001	2000
Revenues								
Telecommunications								
Local	\$ 211,764	\$ 208,548	\$ 218,358	\$ 217,640	\$ 219,341	\$ 209,103	\$ 218,961	\$ 217,924
Long distance	104,269	114,681	101,927	105,349	100,392	110,091	102,069	109,652
Wireless	54,912	45,912	60,585	51,269	68,317	59,898	66,083	59,220
Other	67,347	39,453	93,120	75,980	76,887	65,976	83,499	93,669
Information technology	109,714	84,513	91,192	77,170	85,316	79,009	87,922	90,692
Remote communications	100,641	35,133	108,918	43,631	110,831	45,420	130,514	53,317
Emerging	38,206	32,055	35,786	32,571	28,433	40,743	26,461	43,955
Other	93	3,106	493	2,732	79	2,794	81	2,197
Intercompany eliminations	(48,587)	(32,117)	(51,532)	(43,111)	(49,095)	(45,803)	(51,731)	(58,191)
	638,359	531,284	658,847	563,231	640,501	567,231	663,859	612,435
Expenses								
Cost of operating revenues	178,208	119,968	167,407	125,498	167,117	137,495	197,909	182,939
Other operating expenses	248,567	216,160	240,913	212,537	223,696	210,454	200,713	210,304
Depreciation & amortization	109,257	88,186	108,677	90,408	108,472	83,746	112,963	95,515
Restructuring charge	—	—	—	—	—	—	111,237	—
	536,032	424,314	516,997	428,443	499,285	431,695	622,822	488,758
Operating income	102,327	106,970	141,850	134,788	141,216	135,536	41,037	123,677
Other income (expenses)	1,541	2,670	(5,289)	740	(7,207)	2,271	(5,865)	11,190
Interest charges	42,162	29,901	41,933	31,664	38,756	29,992	34,638	32,829
Income before income taxes	61,706	79,739	94,628	103,864	95,253	107,815	534	102,038
Income taxes	37,133	37,763	49,906	48,920	53,179	52,357	4,804	44,852
Income before non-controlling interest	24,573	41,976	44,722	54,944	42,074	55,458	(4,270)	57,186
Non-controlling interest	(6,269)	(881)	(2,515)	(1,202)	(3,920)	(3,462)	(1,125)	(2,013)
Net income	\$ 30,842	\$ 42,857	\$ 47,237	\$ 56,146	\$ 45,994	\$ 58,920	\$ (3,145)	\$ 59,199
Preferred share dividends	—	—	1,851	—	2,384	—	2,384	—
Net income applicable								
to common shares	\$ 30,842	\$ 42,857	\$ 45,386	\$ 56,146	\$ 43,610	\$ 58,920	\$ (5,529)	\$ 59,199
Net income applicable to common shares before restructuring charge	\$ 30,842	\$ 42,857	\$ 45,386	\$ 56,146	\$ 43,610	\$ 58,920	\$ 57,440	\$ 59,199
Earnings per share	\$ 0.23	\$ 0.33	\$ 0.34	\$ 0.43	\$ 0.32	\$ 0.44	\$ (0.05)	\$ 0.45
Earnings per share before restructuring charge	\$ 0.23	\$ 0.33	\$ 0.34	\$ 0.43	\$ 0.32	\$ 0.44	\$ 0.42	\$ 0.45
Average common shares outstanding	134,572	127,645	135,111	130,896	135,975	134,032	136,861	134,283

earnings in the fourth quarter. The majority of this amount was spent on severance payments for employees and necessary systems changes to allow for a more efficient workforce. Annual pre-tax cost savings of approximately \$56 million will be realized, this run-rate being achieved in 2002.

In a separate move, Aliant Telecom is strengthening its ties with the Bell family to enhance growth opportunities and maintain its leadership in the Atlantic Canadian telecommunications market. There are many ways for the companies to mutually benefit through synergies and additional revenue opportunities. Aliant anticipates implementing plans to realize these opportunities over the next several months. With these strategic initiatives, Aliant will continue to drive growth in future years through more efficient and competitive operations.

On the strength of revenue growth in the remote communications and information technology lines of business, consolidated revenue is expected to grow 3 per cent to 6 per cent to \$2.68 billion to \$2.76 billion in 2002. Adjusting the 2001 base for the \$110 million loss in revenue from regulatory decisions, 2002 revenue targets translate into 8 per cent to 11 per cent growth rates.

EBITDA is expected to grow 3 per cent to 7 per cent

to \$1.000 billion to \$1.045 billion on a base of \$977 million in 2001. Excluding the negative impact (\$69 million) of the contribution decision, the real growth becomes 10 per cent to 15 per cent.

Earnings per common share (EPS) is expected to significantly increase in 2002 based on the following factors:

- Strong operating performance translating into 3 per cent to 7 per cent EBITDA growth
- The absence of any material restructuring charges
- A slight decline in depreciation and amortization expense as the cessation of the amortization of goodwill offsets growth in depreciation expense driven by accelerated depreciation of wireless and broadband plant
- A lower effective tax rate

EPS before restructuring is expected to grow 22 per cent to 45 per cent to \$1.60 to \$1.90 in 2002.

It is anticipated that capital expenditures in 2002 will be between \$440 and \$465 million, compared to \$466 million spent in 2001 and reflective of continued prudent management of the Company's assets and the potential savings associated with the Bell Strategic Alignment Agreement.

Consolidated 2002 guidance (millions of dollars except per share amounts)

	2001	2002 growth rate			
		2002 low	Low %	2002 high	High %
Revenues					
Telecommunications	\$1,848	\$1,803	(3)	\$1,868	1
Information technology	374	400	7	450	20
Remote communications	451	485	8	498	10
Emerging business	129	136	5	148	15
Corporate and other	(200)	(144)	(28)	(204)	2
Consolidated	\$2,602	\$2,680	3	\$2,760	6
EBITDA (before restructuring charge)					
Telecommunications	\$ 878	\$ 875	0	\$ 900	3
Information technology	33	33	0	40	20
Remote communications	100	110	10	115	15
Emerging business	(5)	5	—	15	—
Corporate and other	(29)	(23)	(20)	(25)	(13)
Consolidated	\$ 977	\$1,000	3	\$1,045	7
Earnings per share (EPS)					
EPS before restructuring charge	\$ 1.31	\$ 1.60	22	\$ 1.90	45
EPS after restructuring charge	\$ 0.84	\$ 1.60	90	\$ 1.90	126
Capital expenditures					
Telecommunications	\$ 393	\$ 375	(5)	\$ 400	2
Information technology	12	10	(17)	10	(17)
Remote communications	23	23	0	23	0
Emerging business	35	32	(9)	32	(9)
Corporate and other	3	0	(100)	0	(100)
Consolidated	\$ 466	\$ 440	(6)	\$ 465	0

Further discussion of individual operating environments and line of business guidance, is provided in their respective sections.

TELECOMMUNICATIONS

During 1999 and 2000 Aliant Telecom was a holding company for the telecommunications operations being carried out by the predecessor companies and their mobility affiliates. Effective with the amalgamation on January 1, 2001, Aliant Telecom has become the main telecommunications operating company.

Telecommunications revenues increased 3.6 per cent in 2001 to \$1.85 billion as significant growth in wireless, Internet and other revenues offset a 7.1 per cent decline in long distance revenues for the year. This increase in revenues was achieved despite the negative impact of a regulatory decision as discussed below.

EBITDA (excluding restructuring costs) grew 10.9 per cent from \$791.3 million in 2000 to \$877.8 million in 2001 as the net revenue (after cost of revenues) increase of \$98.8 million, or 6.6 per cent, was coupled with only a \$12.2 million (1.7 per cent) rise in operating expenses. The EBITDA margin (EBITDA as a percentage of revenues) increased from 44.3 per cent in 2000 to 47.5 per cent in 2001.

Revenues were negatively impacted, while EBITDA was positively impacted, by changes to the contribution regime required by the CRTC. Effective January 1, 2001, all service providers were required to pay 4.5 per cent on certain of their telecommunications revenues into a national contribution pool. Local service providers were then able to draw from the pool to help offset the costs of providing basic local services in high-cost areas. Long distance revenues are also impacted because settlement rates per minute have removed the contribution component in 2001. These changes reduced Aliant Telecom's revenues by \$33.5 million for the year. Without this, revenue growth would have been 5.4 per cent over 2000. Related cost of revenues were also reduced as a result of implementing the decision, with the decrease in costs more than offsetting decreased revenues. The positive impact for 2001 EBITDA associated with the change in net contribution was \$18.1 million.

Revenues

Local

Local revenues are earned through the provision of network accesses, telephone set rentals, enhanced service options and contribution revenues. Total local revenues marginally increased by 1.8 per cent to \$868.4 million for 2001. An increase in residential service rates, higher revenues from enhanced service features and data access services were partially offset by a \$12.2 million decrease in contribution revenues. Without the loss of revenues from the January 1 implementation of the CRTC contribution changes, local revenues would have increased 3.2 per cent for the year.

IN 2001, TELECOMMUNICATIONS REVENUE INCREASED

3.6%

TO \$1.8 BILLION ON WIRELESS AND INTERNET GROWTH.

Local voice network access services (NAS) revenue increased by 0.9 per cent to \$459.5 million as residential price increases implemented in New Brunswick, Newfoundland and Labrador, and Prince Edward Island throughout 2001 took effect. Management estimates these price increases will add \$10 to \$12 million to local revenues in 2002. While NAS growth has matured, Aliant Telecom's overall market share for local services remains strong at 97.5 per cent due to its strategy of retaining customers through targeted bundled service offerings which were expanded in 2001 to include digital television. Residential customer acceptance has driven a 31 per cent increase in the number of bundled service packages.

Data access revenues increased to \$91.7 million in 2001 showing growth of 2.7 per cent as solid demand for data circuits was offset by price reductions. Although

Impact of contribution regime changes (for the year ended December 31) (millions of dollars)

	2001
Decreased local revenues	\$ (12.2)
Decreased long distance revenues	(21.3)
Total revenue impact	(33.5)
Decreased settlement expense	10.8
Decreased contribution expense	40.8
Total cost of revenues impact	51.6
Net EBITDA impact	\$ 18.1

data access revenues show modest growth, the growing importance of data overall is seen in the significant increases in Internet and e-commerce revenues.

Revenues from enhanced local service features increased 15.6 per cent to \$87.5 million in 2001, a combined result of price increases earlier in the year and continued growth in penetration of bundled services.

Long distance

Aliant Telecom's minute volumes increased by 6.3 per cent from 3.3 billion in 2000 to 3.5 billion in 2001. The large base of call centre customers that Aliant Telecom has been able to attract to the Atlantic region

impact of demand growth on long distance revenues. Before considering the changes to toll settlement rates required under the new CRTC contribution regime, long distance revenues declined 2.2 per cent to \$430.0 million in 2001 from \$439.8 million in 2000. With the reduction in toll settlement rates resulting from the contribution decision, there was a year-over-year decline in long distance revenues of 7.1 per cent.

Wireless

Wireless revenues are earned through the provision of cellular, paging and mobile radio services. Aliant Telecom's wireless business continued its steady strong growth, resulting in increased revenues of 15.5 per cent to \$249.9 million in 2001. Aliant maintains an industry-leading market share (approximately 75 per cent) for cellular services, and continued new demand for these services is being reflected in customer growth. Aliant's cellular customers numbered 477,564 at the end of 2001, representing growth of 22.6 per cent over 2000 and encompassing a 152 per cent increase in digital subscribers.

Part of the growing demand for cellular services, including new digital services, is being stimulated by declining prices. During the year, Aliant Telecom introduced prepaid wireless services to meet the market demand of customers with lower usage patterns. While this has resulted in greater penetration of service, it has led to a further decline in the average revenues per customer, which declined by 8.5 per cent to \$44.68 per month in 2001 compared with \$48.81 per month for the same period last year. Excluding the prepaid customer, average revenue per customer remained strong at \$48.86 per month in 2001 compared to \$50.70 per month in 2000.

Other

Other telecommunications revenues are derived

MARKET SHARE FOR LOCAL SERVICE IS STRONG AT

97.5%

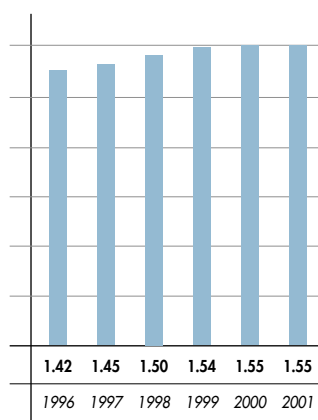
DUE TO A STRATEGY OF BUNDLED SERVICE OFFERINGS.

continues to be a significant driver of minute growth. At the same time, bundled service offerings, including a flat-rate long distance component, continue to drive up calling volumes in the residential market. As a result of these initiatives, Aliant Telecom has been able to grow its market share to 89 per cent of the Atlantic Canada long distance market at the end of 2001.

Lower average per-minute prices continue to offset the

Wireline network access services

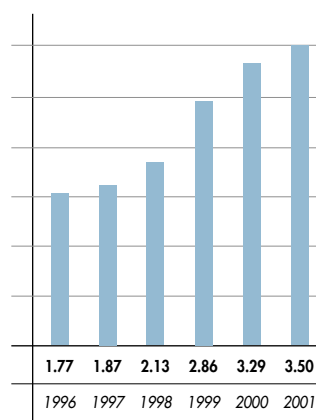
(millions)



Our strategy of bundling service offerings has held our number of landline network access services in 2001 at 1.55 million, the same as in 2000.

Long distance conversation minutes

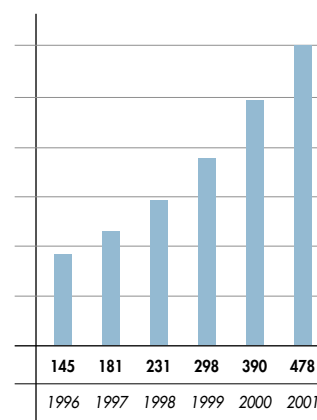
(billions)



Call centres and flat rate long distance pricing for residence customers drove calling volumes up to 3.5 billion minutes in 2001, an increase of 6.3% over 2000.

Cellular customers

(thousands)



Growth in our number of cellular customers continued unabated in 2001, up 22.6% to 477,564. Our market share is approximately 75%.

from Internet services, telephone directory advertising, equipment sales, consulting services and new services such as *VibeVision* – Aliant Telecom's interactive digital television offering. Total other revenues were up \$45.8 million or 16.6 per cent in 2001.

Internet services continued to generate tremendous growth over the past year as the number of Aliant Telecom's high-speed customers increased by 87.9 per cent to 67,827 and the number of regular dial-up customers grew by 10.6 per cent to 194,782. Revenues from Internet services increased 43.1 per cent to \$78.8 million for the year. Directory advertising revenues were \$42.5 million, up 4.6 per cent from 2000. Outright sales of telecom equipment were flat at \$115.7 million for the year. The \$20.3 million or 32.0 per cent increase in other miscellaneous revenues is a result of strong growth in newer services such as e-commerce (\$1.5 million), digital television services (\$1.0 million), call centre services (\$7.3 million), and operating a Bell *Sympatico* Internet helpdesk (\$6.9 million) under contract with Bell Canada.

Expenses

Cost of revenues

Cost of revenues includes cost of goods sold, contribution payments and settlement costs paid to other telecommunications carriers to transit and terminate long distance calls originating on Aliant Telecom's network. The 12.4 per cent decrease in cost of revenues compared with 2000 reflects the impact of lower contribution and settlement payments, partially offset by higher cost of product sales.

Cost of product sales increased by \$16.4 million or 14.3 per cent, related to the growth in revenues from equipment sales plus the costs of operating the Bell *Sympatico* Internet helpdesk. Contribution costs were lower by \$45.3 million in the year, reflecting the lower contribution (\$40.8 million) required by the new CRTC decision. Settlement expense for calls terminating on other companies' networks was lower by \$10.2 million compared to 2000, also as a result of the CRTC contribution decision.

Other revenue detail (thousands of dollars)

	2001	2000	% change
Internet	\$ 78,838	\$ 55,099	43.1
Product sales	115,716	115,869	(0.1)
Directory revenues	42,516	40,649	4.6
Other miscellaneous	83,783	63,461	32.0
	\$ 320,853	\$ 275,078	16.6

Telecommunications operating results (thousands of dollars except per share amounts)

	2001	2000	% change
Local	\$ 868,424	\$ 853,215	1.8
Long distance	408,657	439,773	(7.1)
Wireless	249,897	216,299	15.5
Other	320,853	275,078	16.6
Total revenues	\$ 1,847,831	\$ 1,784,365	3.6
Cost of revenues	248,678	284,019	(12.4)
Net operating revenues	1,599,153	1,500,346	6.6
Cash operating expenses	721,329	709,085	1.7
EBITDA (before restructuring charge)	877,824	791,261	10.9
Restructuring charge	76,448	—	—
EBITDA	801,376	791,261	1.3
Depreciation and amortization	349,248	311,759	12.0
Operating income	452,128	479,502	(5.7)
Other income (expense)	(457)	(226)	(102.2)
Interest	97,403	101,716	(4.2)
Income taxes	158,272	172,600	(8.3)
Non-controlling interest	869	345	151.7
Net income applicable to common shares	\$ 195,127	\$ 204,615	(4.6)
Earnings per share	\$ 1.44	\$ 1.55	(7.1)
Earnings per share (before restructuring charge)	\$ 1.76	\$ 1.55	13.5

Depreciation and amortization

Telecommunications' depreciation and amortization expenses were up \$37.5 million or 12.0 per cent for the year. The focus of capital spending has shifted away from the traditional voice network and toward the broadband and wireless areas with their higher revenue-growth potential. The combined effects of higher capital expenditures in 2000 and 2001 and a shorter life span associated with depreciating non-traditional plant and equipment contributed to the increased expense.

In 2001, Aliant Telecom sold most of its telephone poles in Newfoundland and Labrador to Newfoundland Power. Without ownership of the poles, future depreciation

and other restructuring initiatives necessary to increase productivity and reduce operating costs. Realization of these reductions have already begun with a decrease in operating expenses of 7.6 per cent over the fourth quarter in 2000 and an 8.8 per cent decline over the third quarter in 2001.

Telecommunications operating environment, business trends and outlook

During the year, Aliant Telecom made substantial progress in realigning its operations to prepare for ongoing competition, regulatory changes, and industry developments in 2002. As a consequence, Aliant Telecom is expecting to grow both its revenues and EBITDA in 2002. This is a challenging objective given the CRTC's contribution and banding decision and the increasing pressures that competition is placing on margins in the traditional local and long distance service market, which still represents Aliant Telecom's largest sources of revenues. The new, higher growth revenue sources such as wireless, Internet and broadband services face competitive pressures as well and the entire industry is confronting the reality of high technology costs coupled with low initial market-penetration rates. Aliant Telecom is proving its leadership role by being the first to introduce exciting new services and by gaining and keeping a solid share of these new markets.

RESTRUCTURING INITIATIVES REDUCED COSTS

7.6%

IN Q4 OF 2001 OVER Q4 OF 2000.

expense and interest charges will be reduced, offset by attachment fees paid to Newfoundland Power for access to the poles. While negative on an EBITDA basis, the transaction is positive economically to Aliant as it frees capital otherwise committed to legacy infrastructure and results in a more efficient operating arrangement for poles.

Other operating expenses

Other telecommunications operating expenses (excluding restructuring charges) increased by \$12.2 million or 1.7 per cent for the year. This is a significant accomplishment given revenue growth of 5.4 per cent over 2000 before the Contribution Decision impact. These expenses include salaries and benefits, property expense, direct operating expenses and other general corporate expenses. Salaries and benefits increased \$11.7 million for the year primarily due to increased pay rates for both unionized and non-unionized employees in 2001. Cellular roaming costs continued to rise as well, up \$5.3 million for the year due to growth in revenues. Higher power and fuel costs have added \$3.6 million to expenses. These increases were partially offset by an application of an additional \$6.9 million in investment tax credits taken on research and development costs. Most other general and administrative operating expenses combined for an overall decrease as efficiency gains continue to be realized.

In the fourth quarter, a \$76.4 million charge was taken in line with a plan to advance the pace of staff reductions

Regulation of the telecom industry

In 2001, the CRTC announced its "banding" decision, defining high-cost service areas. As a result of this decision, a decline in contribution rate to 1.4 per cent in 2002, and the cost subsidy rules, management anticipates a decline in local revenues of approximately \$110 million in contribution revenues. Costs of revenues in 2002 are also expected to be reduced by the regulatory changes, resulting in a net negative \$69 million EBITDA impact.

The predecessor ATI Telcos were, and now Aliant Telecom is, a "Canadian Carrier" and regulated by the CRTC. The telecommunications services that the CRTC chooses to forbear from regulation have been steadily growing over the past five years as competition has grown. However, regulation continues to be an aspect of the operating environment in which Aliant Telecom functions. Price-cap regulation of utility services (which include residential local services and single and multi-line local business services), in particular, limits the growth in revenues from local services by placing a cap on these prices. With price-cap regulation set to expire its initial four-year term in March 2002, there is uncertainty as to what impact, if any, the new rules will have on future prices for utility services. In response, Aliant Telecom has provided its recommendations on revising price-cap regulation to the CRTC. A decision on the new price-cap regime should be known by April 2002.

Competition

There are a number of competitive local exchange

carriers (CLECs) operating in the region focusing on the business market in Halifax and St. John's areas. As well, one of these CLECs also offers residential access service, mainly in the Halifax market. Aliant Telecom fully anticipates geographical expansion of local competition in 2002. Long distance competition in Atlantic Canada is reflective of the rest of the country with no new major competitors expected to enter the market. Aliant Telecom continues to be an industry leader with market share of 89 per cent.

In its wireless business, Aliant Telecom faces three competitors for paging services and two competitors for cellular services. A third cellular competitor has a limited presence in the region by way of offering roaming facilities to other national carriers. 2001 saw the continued expansion of Aliant Telecom's digital cellular service to 56 per cent coverage, which combined with analog services brought total cellular geographic coverage to 95 per cent. Aliant Telecom estimates that it holds approximately 75 per cent of the cellular market in Atlantic Canada. Although some additional cellular market share could be lost to new competitors, management is confident superior service offerings, competitive pricing and greater coverage will help the company retain a strong market position. Aliant Telecom is the major Internet service provider (ISP) in Atlantic Canada, with an estimated market share of 69 per cent of the dial-up and 62 per cent of the high-speed markets. High-speed capability now passes over 506,000, or 57 per cent of homes in Atlantic Canada. 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, should enable the company to maintain its strong market position into the future.

Technology

The major technological challenge facing Aliant Telecom over the coming years is to deploy a "next generation network" infrastructure. Technological advances may also affect Aliant Telecom's level of earnings by shortening the useful life of some of its assets. Retention of customers for longer terms becomes even more important due to the high upfront costs of new technology. Further, technological advances may emerge that could reduce the costs of plant and equipment, and eliminate or reduce barriers that deter other companies from competing in particular market segments. The merger into Aliant and the formation of Aliant Telecom has partially addressed this technology risk as the larger company can now spread resources, investment and knowledge across the region. Further, Aliant Telecom's closer alignment with Bell will create efficiencies in capital expenditures as savings in shared products and services are realized.

Aliant Telecom has made fairly heavy investments in the last four years in advancing the capacity and scope

of its broadband multimedia network. Evolving the communications network to be able to carry and manage broadband services is essential to the future growth of Aliant. Many new sources of revenue with the greatest growth potential in the next few years are from services that are now or soon will be offered over this network. These include Internet, e-commerce, broadband data transmission and interactive television services. At this time there is no assurance that broadband technologies and services will continue to be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance to the degree necessary to make these investments profitable.

DIGITAL AND ANALOG CELLULAR SERVICES NOW COVER

95%

OF ATLANTIC CANADA. MARKET SHARE IS 75%.

However, Aliant's emerging business segment as an industry leader in innovation understands the increasing complexity of customer demands and works closely with Aliant Telecom to develop new products and services for delivery over the broadband network.

Management expects the cooperative model between Aliant Telecom and Bell Canada to contribute revenue enhancements by leveraging Aliant's unique capabilities in Internet Protocol (IP) video and IP communications in a broader market. In addition, Aliant will play an expanded role in the Bell Alliance through Centres of Excellence in Contact Centres, Small and Medium Enterprise (SME) e-Business Applications and Enterprise Network Management and will maximize the alignment of products and services through joint collaboration on marketing strategy.

Throughout the next three years, management also anticipates that there will be an improvement in EBITDA from the Bell alignment. As well as the revenue enhancements noted, further cost reductions are expected. These savings will be created by taking advantage of Bell's scale and scope resulting in improved purchasing power and alliances, improving Aliant's supply chain, eliminating duplicate and redundant functions in both companies, sharing cost management programs and processes, exchanging products and services in each others' market and combining development and innovation initiatives along a common strategy. It is anticipated that the revenue enhancements and cost

savings will be entirely in place by the end of 2004. As previously mentioned, Aliant recorded a \$111.2 million restructuring charge in the fourth quarter of 2001, of which \$76.4 million was related to Aliant Telecom. Recording this charge enabled the Company to achieve solid year-end results, improving shareholder value, and positioning the Company for sustained bottom-line growth. Management anticipates that taking this charge will generate pre-tax cost savings of an estimated \$56 million annually for the Company and approximately \$31 million for Aliant Telecom.

2002 Outlook

Revenues in 2002 are expected to remain relatively

unchanged from 2001. Wireless and broadband growth continues to climb steadily. For 2002, management anticipates continued strong growth in wireless, in the range of 15 per cent to 20 per cent, and Internet growth of between 27 per cent and 40 per cent. This solid growth will offset an anticipated decline in local revenues of approximately \$110 million relating to the CRTC's new contribution regime and cost subsidy rules.

Cost of revenues in 2002 is also expected to decrease due to the regulatory changes, resulting in a net negative \$69 million EBITDA impact. Aliant Telecom anticipates that through cost savings generated by the announced restructuring and closer ties with the Bell family, as well as solid performance in its growth areas of wireless and Internet, EBITDA in 2002 will remain consistent with 2001, at \$875 to \$900 million. Telecommunications capital expenditures for 2002 are expected to range from \$375 million to \$400 million as the company continues its broadband

INFORMATION TECHNOLOGY

infrastructure plan and moves forward with its continued wireless infrastructure expansion.

In the absence of the CRTC's regulatory decision, Aliant Telecom would be generating revenue and EBITDA growth in line with past performance.

Aliant's information technology (IT) line of business is operated by xwave, its wholly owned subsidiary. xwave's revenues increased 12.9 per cent in 2001 to \$374.1 million due to both organic growth and one acquisition made during the fourth quarter of 2000. Slower growth in the higher-margin IT services business, combined with higher operating expenses and lower utilization levels of IT resources have led to lower EBITDA (before restructuring costs) of \$33.2 million in 2001, a 19.4 per cent decline from last year. Lower utilization levels are primarily due to slowing demand for systems integration services industry-wide.

xwave has taken a charge in the fourth quarter of 2001 (\$25.8 million) to provide for severance and other restructuring initiatives. The annual expected rate of savings of \$20 million from this restructuring is anticipated to be fully achieved by the end of 2002.

Organic growth accounted for approximately \$24.8 million, or 7.5 per cent revenue growth over 2000, while an estimated \$17.9 million of the increase is attributable to acquisitions. xwave continues to be an important supplier to other Aliant companies, especially to Aliant Telecom as it makes significant investments in network systems and accelerates its operating efficiency programs. However, external sales growth continues to be strong at 13 per cent over 2000 as presented in note 19 to Aliant's consolidated financial statements. Sales made to other Aliant lines of business have increased 12.7 per cent for the year.

Revenues from IT consulting, technical support services and data processing services grew by 6.0 per cent to \$240.9 million for 2001 – reflecting both the organic trend and the acquisition of TechKnowledge Inc. in December 2000. Product sales from xwave's IT fulfillment business grew more significantly, 28.0 per cent to \$133.3 million, primarily due to organic growth. The gross margin on product sales remained the same as in 2000 at 9.3 per cent, however competitive

XWAVE REVENUES INCREASED

12.9%

IN 2001 TO \$374.1 MILLION.

Regulatory impact on Aliant Telecom in 2002 (millions of dollars)

	2001	2002 impact	Revised	2002 guidance			
		of CRTC	2001	2002 low	Low %	2002 high	High %
		regulatory	comparison				
		decision	base				
Revenue	\$1,848	\$ (110)	\$1,738	\$1,803	4	\$1,868	7
EBITDA	878	(69)	809	875	8	900	11
Capital expenditures	393	—	393	375	(5)	400	2

pressures resulted in a reduction in gross margin on service revenues from 36.3 per cent to 31 per cent.

IT operating environment and business outlook

xwave was started and is based in Atlantic Canada, but is expanding its national and international presence. In 2001, approximately 28 per cent of xwave's revenues were derived from outside the Atlantic Provinces, 6 per cent growth over 2000. The IT operating environment is characterized by a few very large competitors and several very small local or regional competitors. The industry is quite fragmented in that each competitor might have a specific area of expertise either in the services it provides or the vertical markets it serves. Although xwave is a full-service IT provider to a broad range of clients, it is particularly focused on specific industry verticals where it and other Aliant companies have significant experience – telecommunications, energy, defence/aerospace and public safety. This group of industries makes xwave somewhat dependent on cyclical factors that drive discretionary spending in these areas including the general economic environment and the state of public finances.

In the near term, xwave has announced a major government contract with the Canada Customs and Revenue Agency in excess of \$30 million over three years to deliver eBusiness infrastructure solutions and related professional services. In addition, the State of Maine

Department of Corrections signed a contract with xwave to deliver a secure web-based case management solution representing approximately \$7 million in revenues. Given xwave's recent success in securing these new contracts as well as ongoing cost savings initiatives, management is optimistic heading into 2002. Since this industry reacts significantly to changes in the economy, and in light of the uncertain climate for 2002, we are projecting revenues to increase by 7 per cent to 20 per cent to between \$400 and \$450 million, and EBITDA of \$33 to \$40 million.

REMOTE COMMUNICATIONS

Aliant's remote communications line of business is represented by its 61 per cent ownership of Stratos. Stratos' results in 2001 are significantly impacted by its 2000 acquisitions of British Telecommunications plc's Aeronautical and Marine Division (BT A&M), Shell Offshore Services Company, Seven Seas Communications, Inc., Seven Seas Communication Systems, Inc. and Datacom Inc. These acquisitions more than doubled the company's size. During 2001 Stratos has worked to effectively integrate and consolidate the acquired operations and has successfully achieved all milestones.

Remote communications revenue increased 154.0 per cent to \$450.9 million in 2001 from \$177.5 million in 2000 due to the four acquisitions made in 2000

Information technology operating results (thousands of dollars)

	2001	2000	% change
Services	\$ 240,847	\$ 227,212	6.0
Product sales	133,297	104,173	28.0
Total revenues	\$ 374,144	\$ 331,385	12.9
Cost of revenues	120,848	94,518	27.9
Net revenues	253,296	236,867	6.9
Cash operating expenses	220,061	195,651	12.5
EBITDA (before restructuring charge)	33,235	41,216	(19.4)
Restructuring charge	25,755	—	—
EBITDA	7,480	41,216	(81.8)
Depreciation and amortization	16,468	13,447	22.5
Operating income	(8,988)	27,769	(132.4)
Other income (expense)	340	582	(41.5)
Interest	2,109	2,308	(8.6)
Income taxes	(41)	12,362	(100.3)
Non-controlling interest	(121)	205	(159.3)
Net income applicable to common shares	\$ (10,595)	\$ 13,476	(178.6)

Information technology 2002 guidance (millions of dollars)

	2001	2002 growth rate			
		2002 low	Low %	2002 high	High %
Revenue	\$ 374	\$ 400	7	\$ 450	20
EBITDA	33	33	—	40	20
Capital expenditures	12	10	(17)	10	(17)

and organic growth in the business. The base of business in Stratos' telecommunications services, as it existed prior to the BT A&M acquisition, has shown organic growth of an estimated 18 per cent for the year. In 2001, there was an increase of approximately \$260.5 million in revenues from telecommunications services, a \$4.8 million increase in network equipment and terminal sales.

Cost of goods and services for 2001 of \$285.4 million represents an increase of 129.2 per cent over last year. This increase can be attributed to the new goods and services offered through Stratos and to the increased size of the base of customers through its acquisitions

in net operating revenues. The higher gross margin is attributable to both an improvement in margins in the pre-acquisition business and higher margins in the businesses that were acquired.

Despite the significant increase in scale of Stratos' business as a result of the acquisitions, remote communications operating expenses for the year increased by only \$24.3 million demonstrating the realization of significant operating synergies in the expanded operations. Cash operating expenses as a percentage of revenue have declined from 23.3 per cent for 2000 to 14.6 per cent in 2001. The improved gross margins and lower operating cost percentages have contributed to significant growth in EBITDA this year. EBITDA for 2001 increased by \$86.4 million to \$99.8 million. EBITDA margins improved from 7.5 per cent of revenue in 2000 to 22.1 per cent of revenue in 2001.

Depreciation expense and goodwill amortization increased \$37.2 million in 2001, due to the 2000 acquisitions. Other income declined \$9.2 million over last year due to costs incurred in integrating the BT A&M operations. The rise in these expenses, combined with non-recognition of tax benefits for current operating losses, is negatively impacting Stratos' bottom line results in 2001. Stratos experienced a net loss of \$22.0 million compared with a \$14.5 million loss in 2000.

REMOTE COMMUNICATIONS REVENUE INCREASED

154%

TO \$450.9 MILLION IN 2001.

and organic growth in 2000. Gross margin as a percentage of revenue increased to 36.7 per cent in 2001 compared to 29.9 per cent for the same period in 2000, resulting in a 212 per cent increase

Remote communications operating environment and business outlook

Key drivers in the remote communications industry are

Remote communications operating results (thousands of dollars)

	2001	2000	% change
Revenues	\$ 450,904	\$ 177,501	154.0
Cost of revenues	285,360	124,490	129.2
Net operating revenues	165,544	53,011	212.3
Cash operating expenses	65,738	41,420	58.7
EBITDA	99,806	13,387	—
Depreciation and amortization	56,688	19,517	190.5
Operating income	43,118	(7,926)	—
Other income (expense)	(13,874)	(4,625)	200.0
Interest	57,106	11,298	405.4
Income taxes	8,401	(1,101)	—
Non-controlling interest	(14,309)	(8,278)	72.9
Net income (loss)	\$ (21,954)	\$ (14,470)	51.7

Remote communications 2002 guidance (millions of dollars)

	2001	2002 growth rate			
		2002 low	Low %	2002 high	High %
Revenue	\$ 451	\$ 485	8	\$ 498	10
EBITDA	100	110	10	115	15
Capital expenditures	23	23	—	23	—

the increasing demand for remote wireless services, voice solutions, the availability of high-speed data access and the growth of the Internet. The acquisitions made in 2000 have positioned Stratos as a leader in this high-growth industry; the BT A&M acquisition was the largest in the company's history. During 2001, Stratos' management successfully integrated and consolidated the BT A&M operations. Customer service and back office functions have been fully integrated and an enhanced offering of products and services is now available. Synergies from these acquisitions, in addition to organic growth, should lead to 8 per cent to 10 per cent growth in revenue and 10 per cent to 15 per cent growth in EBITDA in 2002.

On December 19, 2001, Stratos announced it won a competitive contract with the United States Navy to provide global, full duplex, leased satellite bandwidth for use with the INMARSAT B systems aboard U.S. Navy ships. This contract includes a maximum quantity of 63 months of service and the estimated value over the five-year period is approximately \$200 million.

Stratos is subject to Canadian and United States regulatory frameworks governing the provision of mobile satellite services. A description of changes, decisions, on-going proceedings and issues in this regulatory environment is provided in Aliant's Annual Information Form for the year ended December 31, 2001.

EMERGING BUSINESS

Aliant's emerging business revenues decreased 13.7 per cent to \$128.9 million in 2001 from \$149.3 million in 2000 due to the dramatic downturn in the technology industry and its impact on the emerging business group's customers and demands for its products and services. EBITDA decreased by \$37.0 million from \$32.2 million in 2000, with the majority of this deficiency (\$27.0 million) arising from an inability to match divestitures of intellectual property that occurred in 2000.

This year Innovatia has seen its revenues increase 15.5 per cent to \$36.2 million. This is driven by the early-stage revenues primarily associated with the first of two e-learning contracts with Nortel Networks Corp.

Emerging business summary (thousands of dollars)

	2001	2000	Variance	% change
Revenue				
Innovatia	\$ 36,186	\$ 31,330	\$ 4,856	15.5
AMI	74,617	81,290	(6,673)	(8.2)
Prexar	16,593	6,187	10,406	168.2
Aliant Horizons	2,455	30,517	(28,062)	(92.0)
Eliminations	(965)	—	(965)	—
	\$ 128,886	\$ 149,324	\$ (20,438)	(13.7)
EBITDA (before restructuring charge)				
Innovatia	\$ (4,576)	\$ 1,660	\$ (6,236)	(375.7)
AMI	5,067	5,961	(894)	(15.0)
Prexar	(5,479)	(2,621)	(2,858)	(109.0)
Aliant Horizons	124	27,164	(27,040)	(99.5)
	\$ (4,864)	\$ 32,164	\$ (37,028)	(115.1)

Emerging business operating results (thousands of dollars)

	2001	2000	% change
Revenues	\$ 128,886	\$ 149,324	(13.7)
Cost of revenues	56,569	62,874	(10.0)
Net revenues	72,317	86,450	(16.3)
Cash operating expenses	77,181	54,286	42.2
EBITDA (before restructuring charge)	(4,864)	32,164	(115.1)
Restructuring charge	3,034	—	—
EBITDA	(7,898)	32,164	(124.6)
Depreciation and amortization	8,985	4,538	98.0
Operating income	(16,883)	27,626	(161.1)
Other income (expense)	(2,209)	18,155	(112.2)
Interest	1,561	1,493	4.6
Income taxes	(6,102)	13,309	(145.8)
Non-controlling interest	(268)	169	(258.1)
Net income (loss) applicable to common shares	\$ (14,283)	\$ 30,810	(146.4)

(Nortel). Revenue expectations for these contracts have been reduced given the current downturn in the global telecom sector and the resulting sales challenges being faced by Nortel. However cost reduction efforts are being made to balance any negative or delayed-revenue consequences. The first contract started in September 2000, while the second contract in support of Nortel's UMTS portfolio began to generate revenue in the fourth quarter of 2001.

Prexar's acquisition of six Internet service providers since August 1, 2000 has given it a significant market presence in New England, with Internet access customers numbering 33,663 at the end of 2001 and revenues of \$16.6

million. This is an increase of \$10.4 million over 2000. It supplies broadband IP-based applications to telecommunications companies, governments and other enterprises that are looking to provide new Internet-based services to their customers. Sometimes these services are charting completely new ground – such as interactive television services – and sometimes they are simply a new way of doing things electronically – such as government services online or interactive educational tools. Therefore, Innovatia faces competitors in the Internet services development field as well as those providing more traditional services. Innovatia is working to increase its geographic market as well as its products and services. Steady revenue streams from the research and development division, *LivingLAB* and consulting contracts will help offset less predictable revenues from other initiatives. The contract with Nortel to provide its customers and employees an Internet-based learning environment will continue for the next four years, establishing Innovatia's name in this high-growth market. Management expects that through organic growth, key investments and partnerships, Innovatia will be contributing significantly to Aliant's future revenue growth.

AMI won a contract to provide services worth \$20 million for an oil and gas project in Brazil. AMI's revenues have declined 8.2 per cent to \$74.6 million in 2001 from \$81.3 million in 2000 due largely to sales slowdowns in its contract manufacturing business, NewTech, also resulting from the downturn in telecom equipment purchasing.

AMI will continue to grow organically within New England and increase market share. In addition to the Internet services now provided, in 2002 Prexar will add to its selection of enhanced services, begin offering local exchange services and expand its broadband network to extend the reach of its high-speed services. In 2001 AMI, through its principle operating subsidiary SEA Systems, continued to strengthen its position as a world class brand in the Atlantic Canadian offshore oil and gas industry as well as continuing its key role in the development of AES. AMI also continued to grow its presence in the Houston area and opened an office in Sao Paulo, Brazil based on the award of an approximately \$20 million contract for an oil and gas project off the coast of Brazil. AMI continues to work closely with Stratos and xwave to expand AES activities in the Gulf of Mexico and the North Sea.

Overall, the emerging business group is involved in higher-risk/higher-growth sectors. Management believes the higher risk is being moderated through selectively concentrating in areas where Aliant has a proven expertise, making use of relationships with established business partners and providing a financially focused discipline on its operating companies. In 2002, management expects revenues of \$136 to \$148 million and EBITDA of \$5 to \$15 million.

AMI WON A CONTRACT TO PROVIDE SERVICES WORTH

\$20

MILLION FOR AN OIL AND GAS PROJECT IN BRAZIL.

million. This is an increase of \$10.4 million over 2000.

AMI's revenues have declined 8.2 per cent to \$74.6 million in 2001 from \$81.3 million in 2000 due largely to sales slowdowns in its contract manufacturing business, NewTech, also resulting from the downturn in telecom equipment purchasing.

Aliant Horizon's revenues have decreased to \$2.5 million in 2001 from \$30.5 million in 2000 due to a decline in the number of one-time software sales. Due to the economic downturn, particularly in the technology sector, other portfolio investments have been held for divestiture until market conditions are favourable.

Operating expenses have increased significantly in both Innovatia and Prexar, reflecting the change in sales mixes of the businesses, as well as the upfront costs associated with their start-up situation.

Emerging business operating environment and business outlook

Innovatia is a service provider to service providers.

Emerging business 2002 guidance (millions of dollars)

	2001	2002 growth rate			
		2002 low	Low %	2002 high	High %
Revenue	\$ 129	\$ 136	6	\$ 148	15
EBITDA	(5)	5	—	15	—
Capital expenditures	35	32	(9)	32	(9)

OTHER CONSOLIDATED RESULTS

Other income

Aliant's other income (expenses) decreased from \$16.9 million in 2000 to a loss of \$16.8 million for the same period in 2001. Other income includes gains and losses on sales of assets and investments and Aliant's share of earnings and losses in equity-accounted investments. Miscellaneous investment income earned in 2001 was offset by \$9.5 million in costs incurred by Stratos in integrating the operations of BT A&M and \$6.2 million for Aliant's share of losses in equity-accounted investments. In addition, in 2000 a dilution gain of \$19.3 million was realized on iMagicTV as Aliant's investment was reduced by equity issued in that company.

Interest expense

Consolidated interest expense increased from \$124.4 million in 2000 to \$157.5 million in 2001. Higher debt levels related to the acquisitions made by Stratos in 2000 drove this increase. Stratos' additional debt led to a \$45.8 million increase in Aliant's consolidated interest charges when compared to 2000. As capital market conditions improve, Stratos will seek an opportunity to refinance this debt and reduce future interest costs.

Interest expense in the telecommunications line of business was reduced by \$4.3 million during 2001. This decline is primarily due to Aliant Telecom reducing its overall debt levels and refinancing existing debt at lower interest rates during 2001. Also in 2001, Aliant Telecom called four long-term bond issues prior to their maturity, resulting in prior years' unamortized issue discounts being recognized in interest expense this year. During the year, Aliant Telecom received \$7.6 million from CIBC on the sale of an interest rate option contract related to MTT series AD which will reduce interest expense until 2013.

In December 2001, Aliant Telecom entered into an accounts receivable securitization agreement with Scotia Capital whereby it can sell accounts receivable on a revolving basis. As of December 13, 2001, the company had sold \$150 million of accounts receivable. Securitizing accounts receivable provides the Company with a lower cost source of short-term funds compared to commercial paper borrowing. The cash received

was loaned to Aliant Inc. and used to retire commercial paper borrowing.

The combined interest expense in all other lines of business and on holding company borrowings has declined overall in the last year. The issuance of \$175 million in preferred shares by Aliant during the second quarter and the application of the net proceeds to reducing debt is having a mitigating impact on interest costs. Aliant's consolidated interest coverage ratios before restructuring for the twelve-month periods ended December 31, 2001 and 2000 were 3.3 times and 4.2 times, respectively. The lower coverage is a result of the growth in net operating income being more than offset by higher consolidated interest expense.

Taxes

Aliant's consolidated income tax provision decreased by 21.1 per cent from \$183.9 million in 2000 to \$145.0 million in 2001. Notwithstanding a decline in the statutory combined tax rates, the effective tax rate appears higher in 2001 due to the non-deductibility of certain expense items for tax purposes, like increased amortization of goodwill, and the operating losses of Stratos, for which the future tax benefit is not currently being recognized.

The Aliant group of companies have a total of \$178 million in tax losses available to offset taxable income of prior or future years, of which, the use of \$13 million is restricted.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Aliant's operating cash flow, before changes in non-cash working capital, decreased 8.8 per cent from \$546.3 million in 2000 to \$498.0 million in 2001. This is attributed to decreased cash earnings from operations resulting from restructuring charges. Management's focus to improve working capital balances continued to see results. The changes in non-cash working capital balances were improved by \$86.7 million in the year.

Investing activities

Aliant's consolidated net capital expenditures were \$465.6 million in 2001. This represents a 6.4 per cent increase over last year. Capital spending at Aliant Telecom was \$393.0 million, marginally lower

Capital expenditures (thousands of dollars)

	2001	2000	% change
Telecommunications	\$ 392,957	\$ 406,285	(3.3)
Information technology	11,444	9,639	18.7
Remote communications	22,767	9,753	133.4
Emerging business	35,283	10,818	226.2
Other	3,191	1,170	172.7
Total capital expenditures	\$ 465,642	\$ 437,665	6.4

than the prior year. In the other lines of business, capital spending increased during 2001. Stratos' capital spending reflects the expanded operations after last year's acquisitions, while higher expenditures in IT are related to xwave's office space consolidation and related costs. In the emerging business segment Prexar is investing in its high-speed Internet network in New England and Innovatia is investing in the e-learning content being developed to meet its contract requirements to Nortel.

Financing activities

Telecommunications

The primary external source of financing for Aliant Telecom's operations are long-term debt issued to the

funds by securitizing \$150 million of accounts receivable with Scotia Capital.

During 2002, a \$50-million debenture issue matures and an additional \$5 million in mortgage bonds become callable for the Company's financial advantage.

On January 10, 2002, Aliant Telecom issued a \$100 million, five-year Medium Term Note to raise the anticipated funding requirements for 2002 taking advantage of a favourable issuing environment with low financing costs.

Information technology

The primary sources of financing for xwave are debt and equity investments from Aliant. xwave has in place as of January 2001, operating lines of credit totaling \$30 million and acquisition facilities of \$45 million with a syndicate of Canadian chartered banks.

Remote communications

Stratos obtains its debt financing through bank facilities and its common equity financing through the public issue of shares that trade on the Toronto Stock Exchange. During the year, US\$25 million of debt was repaid on the bridge loan facility put in place to finance the BT A&M acquisition. Aliant has guaranteed US\$150 million of Stratos' obligations under the debt facilities put in place to complete the BT A&M acquisition. The guarantee by Aliant assisted Stratos in securing the necessary financing. Stratos' credit facilities contain various covenants relating to future financial results. Stratos is currently meeting all of its financial covenant requirements and has received a six-month extension of its bridge loan facility to January 2003. In 2002, Stratos will have to raise additional funds to ensure appropriate financing levels are in place prior to the expiration of this extension.

Corporate financing

Aliant issued \$91.8 million in common equity during the year by way of its employee share purchase plan, dividend reinvestment plan (DRP) and the exercise of options under its employee stock option plan. In April 2001, \$175 million in preferred shares were issued for net proceeds of \$172.3 million. Total dividends paid by Aliant to its common shareholders in 2001 rose from 2000 levels due to the increased number of shares outstanding. Aliant maintained its common dividend

ALIANT PAID COMMON SHAREHOLDER DIVIDENDS OF

\$0.90

PER SHARE IN 2001, THE SAME AS 2000.

public. For the foreseeable future, Aliant Telecom will obtain its short-term debt and common equity financing from Aliant. In April 2001, Aliant Telecom filed a renewal shelf prospectus for the issue of \$350 million of Medium Term Notes (MTNs) in the Canadian market. With the \$150-million issue completed in May, this shelf filing had \$200 million in remaining capacity that is anticipated to be required over the term to the expiry of the prospectus in May 2003. This facility will be used to refinance maturing or redeemable debt originally issued by the ATI Telcos and satisfy additional long-term financing requirements as necessary. Five debt issues totaling \$189 million were retired in the year. This long-term debt repayment was financed through a combination of the \$150 million MTN proceeds, cash from operations, and proceeds from the sale of Newfoundland and Labrador poles and other smaller asset sales.

In December 2001, Aliant Telecom raised additional

Consolidated capital structure (thousands of dollars)

	2001		2000	
Common equity	\$ 1,427,543	43.9%	\$ 1,343,403	40.7%
Preferred equity	172,264	5.3%	—	—
Non-controlling interest	71,738	2.2%	82,486	2.5%
Long-term debt (including current portion)	1,545,529	47.5%	1,568,271	47.6%
Short-term debt, including bank indebtedness	34,252	1.1%	304,046	9.2%
	\$ 3,251,326	100.0%	\$ 3,298,206	100.0%

payment rate per share at \$0.90 for the year. Aliant also paid preferred share dividends, which totaled \$6.6 million for the year.

Aliant had \$4.9 million in commercial paper outstanding at December 31, 2001 a decline of \$230.4 million, as cash from operations, from the lines of business' external financing sources and common share proceeds were sufficient for debt repayment, dividends and investing needs. Aliant maintains lines of credit totaling \$725 million in aggregate with its bankers of which \$350 million is a committed facility supporting the Company's commercial paper program and \$225 million is a total of three committed bank lines held in reserve in support of the guarantee of Stratos' debt. The other \$150 million is a total of Aliant's uncommitted operating lines.

Capital structure

The BT A&M acquisition by Stratos contributed in large part to the 56.8 per cent debt level in Aliant's capital structure at December 31, 2000. Also, the accelerated rollout of Aliant Telecom's 2001 capital expenditure program added to the debt requirements of the Company in the first quarter of 2001. The issuance of preferred shares and growth in cash flow from operations has offset this and improved the debt levels to where they stand at December 31, 2001. Aliant's consolidated debt ratio at the end of 2001 was 48.6 per cent, returning Aliant's balance sheet to a very strong position relative to the industry.

It is anticipated that Aliant will continue to generate sufficient internal cash flow to provide for dividend payments, as and when such dividends are declared, and to fund its capital expenditures and some new investments. Also, Aliant has sufficient capacity in its existing and available financing arrangements to provide liquidity for existing operations and planned future growth.

Aliant's and Aliant Telecom's solid financial position and stable outlook were affirmed by ratings from Dominion Bond Rating Service (DBRS) and the recently merged Standard and Poor's (S&P) and Canadian Bond Rating Service (CBRS).

Debt ratings and outlook

<i>Debt</i>	<i>DBRS</i>	<i>S&P</i>
First mortgage bonds originally issued by:		
Island Tel	A stable	A+ stable
MTT	A stable	AA- stable
NewTel	A stable	A+ stable
Debentures originally issued by:		
MTT	A stable	A stable
NBTel	A stable	A stable
Aliant Telecom MTNs	A stable	A stable
Aliant commercial paper	R-1 (low) stable	A-1 stable
Aliant corporate credit rating	A (low) stable	A stable

CONSOLIDATED OUTLOOK, RISKS AND UNCERTAINTIES

During 2001 Aliant continued to concentrate on executing a long-term growth strategy, evolving the organizational structure to realize merger synergy targets and strengthening the position of each line of business through targeted acquisitions and business expansion. In 2002 Aliant will continue to focus on operational efficiencies and implementation of alignment strategies with Bell Canada. In order to achieve Aliant's overall growth objectives for 2002 and beyond, the higher-growth lines of business have to compensate for the moderating trends expected in telecommunications. Additional value from implementation of the Aliant *Premium* model, such as through AES, will have to

A CONSOLIDATED DEBT RATIO AT THE END OF 2001 OF

48.6%

RETURNS OUR BALANCE SHEET TO A STRONG POSITION.

be realized. Also, challenges being created by rapidly advancing technology and competition will have to be met. From the foundation put in place in 2001, Aliant is in a better position to weather this current period of industry transition and to emerge a leader.

FUTURE CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2002, the Company will be required to adopt new accounting policies, following recommendations under Canadian generally accepted accounting principles (GAAP).

Business combinations

Goodwill

Under the new section, Goodwill should be recognized on an enterprise's balance sheet at the amount initially

recognized, less any write down for impairment. Amortization of goodwill is not permitted and an annual test of impairment must be performed. A goodwill impairment loss should be recognized when the fair value of the goodwill of a reporting unit is less than the carrying amount of the goodwill. An impairment loss should not be reversed if the fair value subsequently increases.

In the first quarter of 2002, the first impairment test will be performed and any resulting impairment loss will be recorded as a charge against opening retained earnings. Subsequent to the transition phase, any annual impairment will be recorded as a charge against earnings.

Foreign currency translation

Beginning in 2002, deferral and amortization of foreign exchange gains and losses will not be permitted. Foreign exchange gains or losses will be recorded as a charge against income as they occur. This may cause more volatile results depending on the change in exchange rates. Upon transition, the existing gains or losses deferred will be recorded as a charge against retained earnings and prior periods will be restated. At December 31, 2001, \$26.5 million in foreign exchange losses was deferred and will be charged to retained earnings in 2002.

Stock-based compensation

The section contains provisions that the substantive terms of a stock-based compensation arrangement should drive the accounting for that arrangement. Basically, the accounting should reflect the inherent rights and obligations of an arrangement, regardless of how those arrangements are described. Stock-based payments to non-employees and direct awards of stock to employees and non-employees are to be accounted for using a fair value-based method of accounting.

Compensation expense under the fair value-based method is measured at the grant date and recognized over the service period. The fair value of a stock option is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock, its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option.

When an enterprise does not use the fair value-based method of accounting, it must disclose pro-forma net income and pro-forma earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation cost.

Responsibility

Management and auditors' reports

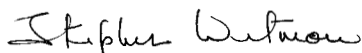
MANAGEMENT REPORT

The accompanying financial statements of Aliant Inc. and all information in this annual report are the responsibility of management and have been approved by the board of directors. The financial statements are based upon management's best estimates and judgements and have been prepared within the guidelines of generally accepted accounting principles appropriate in the circumstances. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the data, management maintains a system of internal controls comprising written policies, procedures and a comprehensive internal audit program which provides reasonable assurance that transactions are recorded and executed in accordance with its authorization, that assets are properly safeguarded and that reliable financial records are maintained.

The responsibility of the board of directors is pursued principally through the audit committee, which meets periodically with management and the internal and external auditors to review accounting principles, practices and internal controls.

The shareholders' external auditors have free access to the audit committee both with and without management present. The report on their review, which provides an independent assessment of the system of internal controls and the compliance of the financial statements with generally accepted accounting principles, is shown opposite.



Stephen Wetmore
President and Chief Executive Officer



Jay Forbes
Executive Vice President and Chief Financial Officer
Saint John, New Brunswick
February 12, 2002

AUDITORS' REPORT

We have audited the consolidated balance sheets of Aliant Inc. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Ernst & Young LLP
St. John's, Newfoundland and Labrador
February 12, 2002

Statements

Consolidated balance sheets

As at December 31 (thousands of dollars)

	2001	2000
ASSETS		
Current assets		
Cash and short term investments	\$ 131,558	\$ 80,492
Accounts receivable	482,454	628,377
Inventory	36,046	45,528
Prepayments	34,947	30,247
Future income tax asset (note 4)	17,500	—
	702,505	784,644
Capital assets – net (note 5)	2,346,599	2,355,145
Other assets		
Long-term investments (note 6)	65,501	80,058
Deferred charges	147,997	47,733
Future income tax asset (note 4)	10,897	9,439
Goodwill (note 7)	418,286	452,616
	642,681	589,846
Total assets	\$ 3,691,785	\$ 3,729,635
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	\$ 11,722	\$ 46,826
Notes payable (note 8)	4,907	235,317
Payables and accruals	398,446	396,871
Long-term debt due within one year (note 9)	84,788	58,880
	499,863	737,894
Long-term debt (note 9)	1,460,741	1,509,391
Future income tax liability (note 4)	—	5,631
Accrued benefit obligation (note 10)	43,758	42,063
Deferred credits	15,878	8,767
Non-controlling interest (note 11)	71,738	82,486
Shareholders' equity		
Capital stock (note 12)	1,186,680	922,601
Contributed surplus	69,320	69,320
Retained earnings	343,807	351,482
	1,599,807	1,343,403
Total liabilities and shareholders' equity	\$ 3,691,785	\$ 3,729,635

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors:



Charles White
Chairman



Edward Reevey
Director

Consolidated statements of income

<i>For the years ended December 31 (thousands of dollars)</i>	2001	2000
Operating revenues (note 18)	\$ 2,601,566	\$ 2,274,180
Expenses		
Cost of operating revenues	710,639	565,901
Operating expenses	913,890	849,457
Depreciation and amortization	439,368	357,855
Restructuring charge (note 2)	111,237	—
	2,175,134	1,773,213
Operating income	426,432	500,967
Other income (expenses)	(16,821)	16,872
Interest charges		
Interest on long-term debt	148,732	106,729
Other interest	8,757	17,658
	157,489	124,387
Income before underlisted items	252,122	393,452
Income taxes (note 4)	145,023	183,890
Income before non-controlling interest	107,099	209,562
Non-controlling interest share of losses	(13,829)	(7,559)
Net income	\$ 120,928	\$ 217,121
Earnings per common share (note 19)		
Basic	\$ 0.84	\$ 1.65
Diluted	\$ 0.83	\$ 1.64

See accompanying notes to the consolidated financial statements

Consolidated statements of retained earnings

<i>For the years ended December 31 (thousands of dollars)</i>	2001	2000
Balance, beginning of year	\$ 351,482	\$ 253,636
Net income	120,928	217,121
Preferred share dividends	(6,619)	—
Common share dividends	(121,984)	(119,275)
Balance, end of year	\$ 343,807	\$ 351,482

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

<i>For the years ended December 31 (thousands of dollars)</i>	2001	2000
Cash and cash equivalents from (used in) operations		
Net income	\$ 120,928	\$ 217,121
Add (deduct) non-cash items		
Depreciation and amortization	441,987	359,049
Other non cash items	(57,305)	(23,424)
Share in losses of equity accounted investments	6,217	1,141
Non-controlling interest share of losses	(13,829)	(7,559)
	497,998	546,328
Change in non-cash working capital balances related to operations	10,111	(76,628)
	508,109	469,700
Cash and cash equivalents from (used in) financing		
Proceeds from issue of preferred shares	172,264	—
Proceeds from issue of common shares	91,815	231,188
Proceeds from long-term debt	155,323	552,639
Repayment of long-term debt	(208,225)	(171,941)
Sale (repurchase) of accounts receivable	150,000	(50,000)
Preferred dividends	(6,619)	—
Common dividends	(121,984)	(119,275)
Increase in non-controlling interest	3,081	60,327
Increase (decrease) in notes payable	(216,372)	66,611
	19,283	569,549
Cash and cash equivalents from (used in) investing		
Capital expenditures	(465,642)	(437,665)
Decrease in other deferred charges	(51,455)	(22,103)
Proceeds on sale of investments	68,918	93,865
Purchase of subsidiaries' net assets and goodwill (note 3)	(2,539)	(582,482)
Non-controlling interest acquired	—	(22,821)
Investments	9,496	(15,667)
	(441,222)	(986,873)
Change in cash and cash equivalents	86,170	52,376
Cash and cash equivalents, beginning of period	33,666	(18,710)
Cash and cash equivalents, end of period	\$ 119,836	\$ 33,666
Cash and cash equivalents consist of:		
Cash and short term investments	\$ 131,558	\$ 80,492
Bank indebtedness	(11,722)	(46,826)
	\$ 119,836	\$ 33,666
Supplementary disclosure		
Interest paid	\$ 165,693	\$ 126,246
Income taxes paid	\$ 202,787	\$ 185,641

See accompanying notes to the consolidated financial statements

Statement notes

Notes to the consolidated financial statements

NOTE 1

Summary of significant accounting policies

Consolidated financial statements

The consolidated financial statements include the accounts of Aliant Inc. (the "Company") and all entities which are controlled by the Company.

At December 31, 2001, the principal subsidiaries of the Company include: Aliant Telecom Inc., Aliant Information Technology Inc., Xwave Solutions Inc., Aliant Horizons Inc., Stratos Global Corporation, AMI Offshore Inc., Innovatia Inc., Prexar LLC, Aliant Properties Inc. and Aliant Energy Services Inc.

The Company accounts for its interest in Joint Ventures by proportionate consolidation.

Use of accounting estimates

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

Regulation

Aliant Telecom Inc., the Company's major telecommunications subsidiary, is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC").

Capital assets

Capital assets are recorded at cost. Depreciation is computed on a straight line basis (outlined in the table below) over the useful lives of the assets. Depreciation expense in 2001 was \$414.0 million (2000 - \$340.8 million).

Asset	Method	Rate
Buildings	Straight line	32 - 42 years
Plant	Straight line	14 years
Machinery and equipment	Straight line	3 - 5 years

Gains and losses on the disposal of capital assets are included in income in the year they occur.

Income taxes

The Company follows the liability method of accounting

for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Inventory

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

Investments

The Company accounts for its investments in affiliated companies over which it has significant influence on the equity basis of accounting, whereby the investments are initially recorded at cost, and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received. The excess of the cost of equity investments over the underlying book value at the date of acquisition is amortized over the estimated useful lives of the underlying assets to which it is attributed.

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

Foreign currency translation

Assets and liabilities of the Company's integrated foreign operations (including Stratos Global Corporation) are translated using the temporal method whereby monetary items are translated at exchange rates prevailing at the balance sheet date, which was US\$1.00 = Cdn\$1.59 at December 31, 2001 (US\$1.00 = Cdn\$1.50 at December 31, 2000) and non-monetary items at historical rates. Revenues and expenses are translated at the average exchange rate. Exchange gains and losses arising from the translation of foreign currency items are included in income, except that gains or losses which arise from the translation of long-term monetary items are deferred and amortized to income over the life of the related monetary item.

NOTE 1

Summary of significant accounting policies *(continued)*

Deferred charges

Deferred charges include debt issue costs and deferred foreign exchange losses associated with United States denominated debt, which are amortized on a straightline basis over the term of the related debt. Also included in deferred charges are subscriber acquisition costs for customers on long-term contracts which are amortized over the contract period or over the defined customer relationship period.

Goodwill

Goodwill represents the excess at the dates of acquisition of the costs over the fair values of the net tangible assets of subsidiary companies and is amortized on a straightline basis over the estimated life of ten to twenty years. The Company evaluates the carrying value of goodwill for potential permanent impairment through ongoing review and analysis of fair market value and expected earnings. A permanent impairment in the value of goodwill is written off against earnings in the year such impairment is recognized.

Post employment benefits

The Company maintains both contributory defined contribution and non-contributory defined benefit final average pension plans for the benefit of employees of certain subsidiaries.

The Company also offers other non-pension post employment benefits to employees of certain subsidiaries, including life insurance and health care plans. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the pension and other employee future benefits.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit pension plans and other retirement benefits:

- (a) The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- (b) For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- (c) Past service costs from plan amendments are amortized on a straightline basis over the average remaining service period of employees active at the date of amendment.
- (d) The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
- (e) When the restructuring of a benefit plan gives rise

to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Earnings per share

Effective January 1, 2001, the Company implemented the new recommendations of the Canadian Institute of Chartered Accountants with regards to earnings per share. Accordingly, diluted earnings per share is computed in accordance with the treasury stock method and based on the weighted average number of common share and dilutive common share equivalents. The comparative figures have been restated to conform to the adopted accounting method and presentation.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The Company uses the indirect method to prepare its cash flow statement.

Stock-based compensation plan

The Company has a stock-based compensation plan for directors, executives and certain senior managers, which is described in note 13. No compensation expense is recognized when stock options are issued. Consideration paid on exercise of stock options is credited to share capital. Compensation expense is recognized for the Company's contributions to the Employee Share Purchase Plan.

Derivative financial instruments

Effective July 1, 2001, the Company adopted the new CICA Accounting Guideline 12, *Transfers of Receivables*, (AcG 12) which addresses the accounting requirements for the transfer and servicing of receivables.

On December 13, 2001, the Company signed a Purchase and Sale Agreement under which it sells a pool of present and future eligible accounts receivable to a securitization trust that issue securities to investors. These transactions are accounted for as sales when the Company is considered to have surrendered control over the transferred accounts receivable and receives proceeds from the trust, other than a beneficial interest in the assets sold. Losses or gains on these transactions are recognized as other expenses or income and are dependent in part on the previous carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable and credit loss ratios.

NOTE 2

Restructuring charge

During the third quarter of 2001, the Company commenced a significant organizational restructuring which resulted in a charge of \$111 million against current earnings. The action being taken in 2001

to effect the restructuring is an acceleration of long-term plans for continued efforts to realize cost savings and efficiencies resulting from the consolidation and integration of its operations.

<i>(thousands of dollars)</i>	Telecommunications	Information technology	Remote communications	Emerging business	All others	Consolidated
Workforce reductions	\$ 76,448	\$ 4,668	\$ —	\$ 449	\$ 3,771	\$ 85,336
Operational integration and other	—	21,087	—	2,585	2,229	25,901
Restructuring charge	\$ 76,448	\$ 25,755	\$ —	\$ 3,034	\$ 6,000	\$111,237

Workforce reduction costs include severance and pension costs and benefits associated with approximately 800 employees notified of termination.

Operational integration and other represent costs of consolidating systems and services, downsizing business units, terminating contracts as well as

streamlining management and administration functions.

Included in payables and accruals is a provision of \$69 million which will be substantially drawn down during 2002 as the consolidation and integration of its operations are completed.

NOTE 3

Acquisitions

The Company made the following acquisitions for cash consideration:

<i>(thousands of dollars)</i>	2001				
Subsidiary acquired	Acquisition date	% acquired	Purchase price	Net assets acquired	Goodwill
Emerging business					
Lamere.Net – asset purchase (Internet Access Provider)	January 1	100	\$ 2,146	\$ 1,239	\$ 907
Internet Maine – asset purchase (Internet Access Provider)	April 12	100	1,327	194	1,133
			3,473	1,433	2,040
Less : Cash in subsidiary at time of acquisition			934	934	—
Acquisition, net of cash acquired			\$ 2,539	\$ 499	\$ 2,040

NOTE 3

Acquisitions (continued)

(thousands of dollars)

2000

Subsidiary acquired	Acquisition date	% acquired	Purchase price	Net assets acquired	Goodwill
Telecommunications					
Quality Connections Communications Inc. and Enercom Communications Inc. – share purchase (Long Distance Service Provider)	March 15	100	\$ 13,940	\$ 9,812	\$ 4,128
Transtech Engineering Inc. – share purchase (Internet Service Provider)	April 4	75	225	225	—
Information technology					
Prior Data Sciences, Ltd. – share purchase (IT Services Provider)	January 31	100	34,015	3,913	30,102
MCW Business Systems Limited – asset purchase (IT Services Provider)	July 6	100	1,713	—	1,713
TechKnowledge Inc. – share purchase (IT Services Provider)	December 21	75	6,794	838	5,956
Emerging business					
Rocket Science Internet Solutions LLC – asset purchase (Internet Service Provider)	September 1	100	1,526	(57)	1,583
New Hampshire Telephone Co. Ltd (MonadNet LLC) – asset purchase (Internet Access Provider)	October 1	100	2,504	(167)	2,671
Kennebec Computer Inc. – asset purchase (Internet Access Provider)	December 1	100	296	(64)	360
Waterville Online – asset purchase (Internet Access Provider)	August 11	100	643	34	609
Remote communications					
Shell Offshore Services Company – asset purchase (Mobile Satellite Communications)	April 7	100	77,523	69,904	7,619
Seven Seas Communications, Inc. and Seven Seas Communication Systems, Inc. – asset purchase (Mobile Satellite Communications)	July 31	100	24,347	1,080	23,267
Datacom Inc. – asset purchase (Mobile Satellite Communications)	October 25	100	69,139	37,369	31,770
British Telecom, PLC – INMARSAT, VSAT and Aeronautical Divisions – asset purchase (Mobile Satellite Communications)	December 31	100	350,110	140,081	210,029
			582,775	262,968	319,807
Less : Cash in subsidiary at time of acquisition			293	293	—
Acquisition, net of cash acquired			\$ 582,482	\$ 262,675	\$ 319,807

These acquisitions have been accounted for using the purchase method of accounting. Goodwill resulting from the acquisitions is being amortized on a straight-line basis consistent with the policy outlined in note 1. The consolidated statements of income include the results of operations from the date of acquisition.

Portfolio investments acquired

During 2000 the Company acquired an 8 per cent interest in Exigen for an aggregate purchase price of \$8.4 million. This investment is accounted for as described in note 1.

NOTE 4

Income taxes

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

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

<i>(thousands of dollars)</i>	2001	2000
Future income tax asset (liability)		
Capital assets	\$ (40,112)	\$ (38,715)
Pension and other employee benefits	13,376	21,779
Deferred charges	126	7,200
Loss carryforwards	39,765	4,198
Other	15,242	9,346
Net future asset	28,397	3,808
Add: long-term portion of future tax liability	—	5,631
Less: current portion of future tax asset	(17,500)	—
Future tax asset	\$ 10,897	\$ 9,439

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

<i>(thousands of dollars)</i>	2001	2000
Current tax expense	\$ 163,684	\$ 170,215
Future income tax expense (benefit) relating to origination and reversal of temporary differences	(21,647)	17,250
Future income tax expense (benefit) resulting from rate change	2,986	(3,575)
Income tax expense	\$ 145,023	\$ 183,890

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

	2001	2000
Statutory income tax rate (including surtax)	44.11%	45.37%
Interest during construction	—	0.67
Federal large corporation tax	1.29	0.99
Tax rate change – future asset	1.19	(0.94)
Benefit of non-capital losses not recognized	7.15	—
Other permanent differences	3.78	0.65
	57.52%	46.74%

Tax losses

The Company has accumulated approximately \$177.5 million in non-capital tax losses that are

available to reduce taxable income in future years. If unused these losses will expire as follows:

<i>(thousands of dollars)</i>	Amount
Years	
2002 – 2005	\$ 10,164
2006 – 2008	117,910
thereafter	49,435
	\$ 177,509

The Company also has capital losses of approximately \$2.0 million available to be carried forward to reduce capital gains in future years.

To December 31, 2001, the tax benefit of \$91.0 million of these losses has been recognized as part of the future tax asset.

NOTE 5

Capital assets

	2001		
	Cost	Accumulated depreciation	Net book value
Land	\$ 16,888	\$ —	\$ 16,888
Buildings	333,361	157,680	175,681
Plant	4,054,070	2,419,011	1,635,059
Machinery and equipment	851,437	380,848	470,589
Plant under construction	39,771	—	39,771
Materials and supplies	8,611	—	8,611
Total capital assets	\$ 5,304,138	\$ 2,957,539	\$ 2,346,599

	2000		
	Cost	Accumulated depreciation	Net book value
Land	\$ 17,629	\$ —	\$ 17,629
Buildings	341,838	171,410	170,428
Plant	3,817,539	2,213,756	1,603,783
Machinery and equipment	783,561	300,523	483,038
Plant under construction	60,743	—	60,743
Materials and supplies	19,524	—	19,524
Total capital assets	\$ 5,040,834	\$ 2,685,689	\$ 2,355,145

NOTE 6

Long-term investments

	2001	2000
Investments subject to significant influence	\$ 23,534	\$ 30,853
Portfolio investments	41,967	49,205
	\$ 65,501	\$ 80,058

NOTE 7

Goodwill

	2001	2000
Goodwill, at cost	\$ 461,391	\$ 484,786
Accumulated amortization	(43,105)	(32,170)
	\$ 418,286	\$ 452,616

NOTE 8

Notes payable

At December 31, 2001 the Company has \$4,907,000 (2000 – \$235,317,000) outstanding under its commercial paper program. The Company has lines of credit available of \$725 million. These lines consist of \$350 million in committed lines supporting the Company's commercial paper program, \$225 million

in committed lines supporting a Stratos loan guarantee and \$150 million in uncommitted operating lines.

The weighted average rate of interest for the debt outstanding is 3.97 per cent and the weighted average term to maturity is 22 days.

NOTE 9

Long-term debt

<i>(thousands of dollars)</i>	Interest rate	Maturity	2001	2000
Telecommunications				
Notes	6.459% – 6.80%	2006 – 2011	\$ 500,000	\$ 350,032
Bonds	8.760% – 12.25%	2006 – 2019	197,500	301,500
Debentures	6.400% – 11.125%	2002 – 2025	315,000	400,000
Other			2,009	—
			1,014,509	1,051,532
Present value of obligations under capital leases			2,092	3,465
Total – Telecommunications			1,016,601	1,054,997
Information technology				
Mortgages			1,879	2,745
Present value of obligations under capital leases			330	354
Total - Information technology			2,209	3,099
Remote communications				
Term debt	LIBOR + 3.75%	2005	318,560	270,855
Acquisition facility	LIBOR + 3.75%	2002	199,100	224,513
Other			2,815	5,427
Total – Remote communications			520,475	500,795
Emerging business				
Mortgages			1,501	2,238
Bank loans			3,239	4,811
Present value of obligations under capital leases			403	516
Other			1,101	1,815
Total - Emerging business			6,244	9,380
Total long-term debt			1,545,529	1,568,271
Less: Portion due within one year			84,788	58,880
			\$ 1,460,741	\$ 1,509,391

All Bonds are issued in series and are redeemable at the option of the Company 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 the option of the Company 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.

As collateral for the acquisition facility and term debt, Stratos Global has provided a first charge over all its assets.

All mortgages are secured by a fixed charge against specific assets of the Company.

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

2002 – \$84,788,000; 2003 – \$329,787,000; 2004 – \$197,109,000; 2005 – \$250,697,000; 2006 – \$514,000; and thereafter \$682,635,000.

NOTE 10

Accrued benefit obligation

The Company maintains both contributory defined contribution and non-contributory defined benefit final average pension plans for the benefit of employees of certain subsidiaries. The Company also offers other non-pension post employment benefits to employees of certain subsidiaries, including life insurance and health care plans.

The total expense for the Company's defined contribution plans providing pension benefits was \$7,361,000 (2000 – \$7,850,000).

Information about the Company's defined benefit plans in aggregate are as follows:

(thousands of dollars)	Pension benefit plans		Other benefit plans	
	2001	2000	2001	2000
Accrued benefit obligation				
Balance at beginning of year	\$1,157,699	\$ 932,087	\$ 132,641	\$ —
Adjustment to opening balance for change in accounting policy	—	182,515	—	121,290
Current service cost	25,529	19,358	3,060	2,738
Interest cost	83,324	80,630	9,002	8,613
Benefits paid	(58,629)	(56,891)	(2,570)	—
Actuarial (gains) losses	60,619	—	(3,248)	—
Balance at end of year	\$1,268,542	\$1,157,699	\$ 138,885	132,641
Plan assets				
Fair value at beginning of year	\$1,294,629	\$1,276,611	\$ —	\$ —
Actual return on plan assets	(26,746)	78,980	—	—
Employer contributions	4,428	—	2,570	—
Benefits paid	(58,629)	(56,891)	(2,570)	—
Fund expenses	(5,142)	(4,071)	—	—
Fair value at end of year	\$1,208,540	\$1,294,629	\$ —	\$ —
Funded status – plan surplus (deficit)	\$ (60,002)	\$ 136,930	\$ (138,885)	\$ (132,641)
Unamortized net actuarial (gains) losses	155,129	(46,352)	—	—
Accrued benefit asset (liability)	\$ 95,127	\$ 90,578	\$ (138,885)	\$ (132,641)

The plan does not directly own common shares of the Company. The plan does own units of index funds which may hold shares of the Company by virtue of the fact that the shares of the Company are listed on the relevant index.

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

	Pension benefit plans		Other benefit plans	
	2001	2000	2001	2000
Discount rate	7.00%	7.25%	7.00%	7.25%
Expected long-term rate of return on plan assets	9.00%	9.00%	—	—
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%

For measurement purposes, a 6.5 per cent annual rate of increase in the per capita cost of covered health care benefits was assumed for five years. The rate was assumed to decrease gradually to 4.5 per cent for

five years and then to 2.5 per cent and remain at that level thereafter.

The Company's net benefit plan expense is as follows:

(thousands of dollars)	Pension benefit plans		Other benefit plans	
	2001	2000	2001	2000
Current service cost	\$ 25,529	\$ 19,358	\$ 3,060	\$ 2,738
Interest cost	83,324	80,630	9,002	8,613
Expected return on plan assets	(115,107)	(111,754)	—	—
Net benefit plan (recovery) expense	\$ (6,254)	\$ (11,766)	\$ 12,062	\$ 11,351

NOTE 11

Non-controlling interest

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

<i>(thousands of dollars)</i>	2001	2000
Stratos Global Corporation	\$ 63,366	\$ 75,016
TechKnowledge Inc.	835	181
Atlantic Mobility Products Ltd.	1,165	412
Prexar LLC	572	2,413
Sablecom	1,834	1,094
Transtech Engineering Inc.	49	57
AMI Offshore Limited	3,917	3,313
	\$ 71,738	\$ 82,486

NOTE 12

Capital stock

Authorized

Unlimited number of preference shares, issuable in series.
Unlimited number of common shares.

Issued

<i>(thousands of dollars)</i>	2001		2000	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,264	—	\$ —
Common shares without par value	137,526,147	1,014,416	134,336,983	922,601
		\$1,186,680		\$ 922,601

Share transactions

Preference shares

On April 20, 2001 the Company issued seven million cumulative redeemable preference shares (Series 2) at the price of \$25 per share and with a fixed annual dividend rate of \$1.3625 per share.

These shares are non-voting, except under certain conditions, and are redeemable at the price of \$25 (plus any unpaid dividends) at the Company's

option on June 30, 2006 or on June 30 each fifth year thereafter.

Preference shareholders (Series 2) may convert Series 2 preference shares to Series 3 preference shares on June 30, 2006 or on June 30 each fifth year thereafter, provided that the Company has not delivered a notice of redemption.

The Company issued the following common shares:

<i>(thousands of dollars)</i>	December 31, 2001		December 31, 2000	
	Number of shares	Value	Number of shares	Value
For cash:				
Stock option plan <i>(note 13)</i>	336,488	\$ 5,072	546,502	\$ 8,856
Common shareholder dividend reinvestment and stock purchase plan	1,836,679	54,353	129,928	4,827
Issued for cash	—	—	5,620,000	196,196
Employees' stock savings plan <i>(note 13)</i>	1,015,997	32,390	560,440	20,309
Shares issued in relation to acquisition activities	—	—	45,662	1,000
	3,189,164	\$ 91,815	6,902,532	\$ 231,188

Under the provisions of the Company's common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders

purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

NOTE 13

Stock-based compensation plans

At December 31, 2001 the Company has the following stock-based compensation plans.

Stock option plan

Under the stock option plan, the Company may grant options to plan members for up to 6,500,000 shares of common stock. The exercise price of each option equals the market price of the Company's stock on the date

of grant and an option's maximum term is ten years. Options become fully vested three years from the date they are granted under the plan.

A summary of the status of the Company's stock option plan as of December 31, 2001 and December 31, 2000, and changes during the periods ended on those dates is presented below:

	December 31, 2001		December 31, 2000	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of year	2,478,674	\$ 23.26	2,202,906	\$ 17.60
Granted	416,089	35.34	822,270	33.73
Exercised	336,488	15.07	546,502	16.20
Options outstanding at end of year	2,558,275	26.67	2,478,674	23.26
Options exercisable at end of year	1,614,550	\$ 21.53	1,292,081	\$ 18.13

The following table summarizes information about stock options outstanding at December 31, 2001:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at December 31, 2001	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable at December 31, 2001	Weighted-average exercise price
\$10.625 to \$15.718	498,292	4.6	\$13.820	498,292	\$13.820
\$17.557 to \$20.079	287,460	6.1	\$19.931	231,863	\$19.916
\$21.768 to \$25.552	455,814	7.0	\$22.890	340,990	\$23.013
\$32.010 to \$34.900	819,783	8.2	\$33.681	453,075	\$33.671
\$35.250 to \$38.100	496,926	9.1	\$35.422	90,330	\$35.443
	2,558,275			1,614,550	

The Company expects that approximately 95 per cent of the nonvested awards at December 31, 2001 will eventually vest.

Employees' stock savings plan

Under the employees' stock savings plan, the Company is authorized to issue up to 3,500,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate.

Under the terms of the plan, employees can choose each

year to have a portion of their annual base earnings withheld to purchase the Company's common stock. The Company contributes to the plan on behalf of eligible participants based upon a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on The Toronto Stock Exchange on the last five days up to, and including, the dividend payment date. Over 80 per cent of eligible employees are participating in the plan. Under the plan, the Company sold 1,015,997 shares to employees from January 1 to December 31, 2001.

NOTE 14

Financial instruments

Sale of accounts receivable

Under an agreement dated December 13, 2001, the Company sold certain accounts receivable to a securitization trust. Pursuant to the agreement the Company transferred \$176.8 million of receivables to the trust for cash proceeds of \$150 million. The excess of amounts transferred over the \$150 million sold represents the Company's retained interest and the amount of overcollateralization in the receivables transferred and is included in long-term assets. The Company remains exposed to certain risks of default on the amount of receivables under securitization. It has provided various credit enhancements in the form of overcollateralization and subordination of its retained interests. The purchaser and its investors have no recourse to the Company's other assets for failure of the obligator to pay the amounts when due.

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

The Company recognized a pre-tax loss of approximately \$388,000 on the transaction. The key assumptions underlying the transaction are:

Cost of funds	2.34%
Weighted average maturity	48 days
Average credit loss	0.94%

The sensitivity of the above assumptions to an immediate 10 to 20 per cent adverse change is not material.

Under an agreement dated December 12, 1997, the Company sold, with minimal recourse, accounts receivable for aggregate cash proceeds of \$50,000,000. During 2000, the Company repurchased the accounts receivable for a cash cost of \$50,000,000.

Risk management

The Company uses cross-currency and interest rate swaps, forward contracts, forward rate agreements and interest rate caps to manage its foreign currency and interest rate positions associated with its debt

instruments. The terms of these derivative contracts generally match the terms associated with the underlying debt instruments. These contracts are generally used to reduce financing costs and to diversify the Company's access to capital markets.

Credit risk

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

Currency exposures

At December 31, 2001, principal amounts owed under cross-currency contracts include \$0.8 million (2000 – \$5.25 million) to MCI.

Interest rate exposures

The Company's long-term debt consists of both floating and fixed interest rate financing, and is therefore subject to risks associated with fluctuating interest rates.

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. Fair values are based 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. Therefore, due to the use of subjective judgment and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 2001 and 2000, the carrying value of all financial instruments approximates fair value with the exception of long-term debt which has been estimated to be \$1,699,000,000 (2000 – \$1,710,000,000) with a carrying value of \$1,546,000,000 (2000 – \$1,568,000,000).

NOTE 15

Commitments as lessee

The estimated future minimum lease payments under operating leases for the next five years are as follows: 2002 – \$58,069,000; 2003 – \$46,775,000;

2004 – \$45,069,000; 2005 – \$43,615,000; 2006 – \$41,500,000; and thereafter \$272,376,000.

NOTE 16

Related party transactions

BCE Inc. beneficially owns and controls 53.0 per cent (2000 – 53.1 per cent) of the outstanding common shares of the Company as at December 31, 2001.

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

<i>(thousands of dollars)</i>		2001	2000
Related party	Nature of transactions		
Controlled investees of BCE Inc.	Purchases of telecommunications and other services	\$ 243,018	\$ 24,831
	Telecommunications revenue	\$ 55,728	\$ 24,383

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 product and

provision of services referred to above.

At December 31, 2001, accounts receivable included \$5.7 million (2000 – \$10.2 million) due from affiliates. Payables and accruals included \$4.2 million (2000 – \$2.5 million) due to affiliates.

NOTE 17

Joint ventures

The Company and its subsidiaries are partners in the following joint ventures: Aliant ActiMedia (87 per cent); and Laurentides Joint Venture (67 per cent) up to November 2001 when the subsidiary purchased the other partner's interest and now owns 100 per cent of the interest in this joint venture. The operations of this

business have been included in the consolidated statements of income from the date of acquisition. The effect of proportionate consolidation of the joint ventures on the Company's consolidated financial statements is summarized below:

<i>(thousands of dollars)</i>	2001	2000
Revenue	\$ 61,560	\$ 55,694
Expenses	45,811	31,400
Operating income	\$ 15,749	\$ 24,294
Current assets	\$ 28,538	\$ 25,178
Long-term assets	331	521
Current liabilities	3,273	3,154
Net investment	\$ 25,596	\$ 22,545
Cash flow		
Operating activities	\$ (721)	\$ 22,300
Investing activities	684	162
Financing activities	—	(24,748)
Net cash flow	\$ (37)	\$ (2,286)

NOTE 18

Segmented information

The Company operates through four 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 is Aliant Telecom Inc.

Information technology – provides systems integration, application development, local area network installation, wide area network management, data centre operations, VAR and information technology planning services.

Included in this line of business is Xwave Solutions Inc. *Remote communications* – provides a full range of satellite communications services to clients in the international marketplace. Included in this line of business are Stratos Global Corporation and its subsidiaries. *Emerging business* – focused on developing and nurturing new technology-based products and services such as: (1) computer telephony integration, TV over copper, high-speed e-commerce, and new media. This includes Innovatia Inc.; (2) supply and service of the east coast oil and gas industry as conducted by AMI Offshore Limited.

NOTE 18

Segmented information *(continued)*

These reportable segments are managed as separate business units as they operate in different industries and require different market strategies and technologies.

The accounting policies of the segments are the same as those described in note 1. The Company evaluates performance based on a number of financial and

non-financial indicators including net income, return on equity and revenue growth.

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

For the year ended December 31 (thousands of dollars)

	2001						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$1,827,916	\$ 221,040	\$ 450,904	\$ 100,960	\$ 746	\$ —	\$2,601,566
Intersegment revenue	19,915	153,104	—	27,926	—	(200,945)	—
Operating revenue	1,847,831	374,144	450,904	128,886	746	(200,945)	2,601,566
Other income (expenses)	(457)	340	(13,874)	(2,209)	164,558	(165,179)	(16,821)
Operating expenses	1,319,255	357,377	407,786	142,735	22,942	(186,198)	2,063,897
Restructuring charge	76,448	25,755	—	3,034	6,000	—	111,237
Interest expense	97,403	2,109	57,106	1,561	10,711	(11,401)	157,489
Income taxes	158,272	(41)	8,401	(6,102)	(12,296)	(3,211)	145,023
Non-controlling interest	869	(121)	(14,309)	(268)	—	—	(13,829)
Net income (loss)	\$ 195,127	\$ (10,595)	\$ (21,954)	\$ (14,283)	\$ 137,947	\$ (165,314)	\$ 120,928
Total assets	\$2,635,164	\$ 234,863	\$ 810,991	\$ 151,163	\$1,792,589	\$ (1,932,985)	\$3,691,785
Capital expenditures	\$ 392,957	\$ 11,444	\$ 22,767	\$ 35,283	\$ 3,191	\$ —	\$ 465,642
Goodwill acquired	\$ —	\$ —	\$ —	\$ 2,040	\$ —	\$ —	\$ 2,040
Depreciation and amortization	\$ 349,248	\$ 16,468	\$ 56,688	\$ 8,985	\$ 349	\$ 7,630	\$ 439,368

For the year ended December 31 (thousands of dollars)

	2000						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$1,767,111	\$ 195,602	\$ 177,501	\$ 125,094	\$ 8,872	\$ —	\$2,274,180
Intersegment revenue	17,254	135,783	—	24,230	1,955	(179,222)	—
Operating revenue	1,784,365	331,385	177,501	149,324	10,827	(179,222)	2,274,180
Other income (expenses)	(226)	582	(4,625)	18,155	15,375	(12,389)	16,872
Operating expenses	1,304,863	303,616	185,427	121,698	29,777	(172,168)	1,773,213
Restructuring charge	—	—	—	—	—	—	—
Interest expense	101,716	2,308	11,298	1,493	19,961	(12,389)	124,387
Income taxes	172,600	12,362	(1,101)	13,309	(13,280)	—	183,890
Non-controlling interest	345	205	(8,278)	169	—	—	(7,559)
Net income (loss)	\$ 204,615	\$ 13,476	\$ (14,470)	\$ 30,810	\$ (10,256)	\$ (7,054)	\$ 217,121
Total assets	\$2,679,632	\$ 229,163	\$ 795,218	\$ 163,930	\$1,669,699	\$ (1,808,007)	\$3,729,635
Capital expenditures	\$ 406,285	\$ 9,639	\$ 9,753	\$ 10,818	\$ 1,170	\$ —	\$ 437,665
Goodwill acquired	\$ 4,128	\$ 37,771	\$ 272,685	\$ 5,223	\$ —	\$ —	\$ 319,807
Depreciation and amortization	\$ 311,759	\$ 13,447	\$ 19,517	\$ 4,538	\$ 1,539	\$ 7,055	\$ 357,855

NOTE 18

Segmented information (continued) Revenue by product and service

<i>For the years ended December 31 (thousands of dollars)</i>	2001	2000
Local	\$ 868,424	\$ 853,215
Long distance	392,647	428,279
Wireless	249,897	216,279
Other telecommunications	316,948	269,338
	1,827,916	1,767,111
Information technology	221,040	195,602
Remote communications	450,904	177,501
Emerging business	100,960	125,094
Other	746	8,872
	\$ 2,601,566	\$ 2,274,180

NOTE 19

Earnings per common share

<i>For the years ended December 31 (thousands of dollars except per share amounts)</i>	2001	2000
Reconciliation of net income available to common shareholders		
Net income	\$ 120,928	\$ 217,121
Preferred share dividends	(6,619)	—
	\$ 114,309	\$ 217,121
Basic		
Average number of common shares outstanding	135,615	131,662
Per share amount	\$ 0.84	\$ 1.65
Diluted		
Average number of common shares outstanding	135,615	131,662
Impact of outstanding stock options	463	816
	136,078	132,478
Per share amount	\$ 0.83	\$ 1.64

NOTE 20

Contingencies

An international arbitration action for approximately US\$8.0 million was initiated in 1999 against certain subsidiaries of the Company claiming breach of contract. In December 2000 an arbitrator rejected the claimant's arguments. The arbitrator adopted a new theory that the subsidiaries breached the contract on other grounds. The arbitrator required the subsidiaries to submit data for the damages phase. Management's estimate of the potential loss has been accrued in these financial statements.

An action has been commenced against the Company by 132 former employees who took early retirement under the 1998 early retirement incentive program. The former employees seek damages 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.

NOTE 21

Subsequent event

Subsequent to year end, the Company offered \$100 million of 5-year Medium Term Notes pursuant to its base shelf prospectus dated April 27, 2001. The notes,

which carry a coupon rate of 5.35 per cent payable semi-annually, were issued on January 15, 2002 and will mature on January 15, 2007.

NOTE 22

Restatement of comparative figures

The comparative financial information has been restated to conform with the presentation adopted for 2001.

Six-year review

Past performance

(thousands of dollars except per share amounts)

	2001	2000	1999	1998	1997	1996
		(note 22)				
Income statement items						
Total operating revenues	\$ 2,601,566	\$ 2,274,180	\$ 2,030,705	\$ 1,723,772	\$ 1,610,079	\$ 1,373,906
Total operating expenses	\$ 2,063,897	\$ 1,773,213	\$ 1,583,695	\$ 1,313,135	\$ 1,227,564	\$ 1,014,498
Restructuring charge	\$ 111,237	\$ —	\$ 78,000	\$ —	\$ —	\$ —
Other income	\$ (16,821)	\$ 16,872	\$ 19,652	\$ 10,875	\$ 2,903	\$ 6,903
Interest charges	\$ 157,489	\$ 124,387	\$ 120,638	\$ 108,036	\$ 109,659	\$ 121,829
Income taxes	\$ 145,023	\$ 183,890	\$ 133,929	\$ 140,793	\$ 128,545	\$ 116,432
Non-controlling interest	\$ (13,829)	\$ (7,559)	\$ (5,975)	\$ 974	\$ 730	\$ 416
Net income before extraordinary item	\$ 120,928	\$ 217,121	\$ 140,070	\$ 171,709	\$ 146,484	\$ 127,634
Extraordinary item	\$ —	\$ —	\$ —	\$ —	\$ (344,335)	\$ —
Net income (loss)	\$ 120,928	\$ 217,121	\$ 140,070	\$ 171,709	\$ (197,851)	\$ 127,634
Balance sheet items						
Total assets	\$ 3,691,785	\$ 3,729,635	\$ 2,886,558	\$ 2,676,991	\$ 2,461,326	\$ 3,096,036
Shareholders equity	\$ 1,599,807	\$ 1,343,403	\$ 1,096,228	\$ 1,041,616	\$ 941,596	\$ 1,268,529
Non-controlling interest	\$ 71,738	\$ 82,486	\$ 29,718	\$ 36,882	\$ 2,329	\$ 1,599
Long-term debt – including current portion	\$ 1,545,529	\$ 1,568,271	\$ 1,187,573	\$ 1,107,546	\$ 1,023,448	\$ 1,014,177
Financial ratios						
Earnings (loss) per average common share	\$ 0.84	\$ 1.65	\$ 1.11	\$ 1.36	\$ (1.58)	\$ 1.03
Dividends declared per common share	\$ 0.90	\$ 0.90	\$ 0.83	\$ 0.75	\$ 0.74	\$ 0.74
Interest coverage	2.60	4.17	3.88	3.90	3.51	3.01
Average common shares outstanding (thousands)	135,615	131,662	126,550	125,543	125,005	123,685
Telecommunications						
Total operating revenue	\$ 1,847,831	\$ 1,784,365	\$ 1,644,330	\$ 1,556,775	\$ 1,531,882	\$ 1,308,025
Total operating expenses	\$ 1,319,255	\$ 1,304,863	\$ 1,210,205	\$ 1,156,957	\$ 1,169,803	\$ 974,271
Network access services – wireline	1,549,999	1,554,942	1,538,569	1,503,004	1,453,995	1,421,700
Network access services – wireless	477,564	389,544	298,448	231,031	180,781	145,338
Long distance minutes (thousands)	3,496,804	3,289,594	2,856,062	2,126,524	1,872,666	1,768,949
Internet subscribers ¹	262,609	212,277	166,750	125,844	83,861	N/A

Note: Revenues for 1997 and later years have been restated to report gross revenues from settlements and contribution. Consequently, revenue growth in 1997 is distorted.

¹ Includes both Canadian and U.S. subscribers

Shareholders

Owning AIT

We're here to help

To learn more about Aliant and to view the latest news releases, please visit our Web site at www.aliant.ca. Contact Aliant investor relations for additional financial and statistical information, and industry developments.

Phone: 1.877.248.3113 (toll free in Canada and U.S.)
 Fax: 1.877.498.2464 (toll free in Canada and U.S.)
 Email: investor.relations@aliant.ca
 Mailing address: Aliant Investor Relations
 PO Box 1113,
 Station Central RPO
 Halifax, NS B3J 2X1

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

Phone: 1.800.387.0825 (toll free in Canada and U.S.)
 Email: inquiries@cibcmellon.com
 Web site: www.cibcmellon.com
 Mailing address: CIBC Mellon Trust Company
 Investor Correspondence
 PO Box 7010,
 Adelaide Street Postal Station
 Toronto, ON M5C 2W9

Where we're listed

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

Share certificate exchange

For shareholders who have yet to do so, please exchange your Bruncor, Island Tel, MTT, or NewTel share certificates for Aliant share certificates. Contact CIBC Mellon Trust Company.

Direct deposit of dividends

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

Dividend dates for 2002*

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

* Subject to approval by the board of directors

Dividend reinvestment plan

Registered common shareholders of Aliant may reinvest their dividends, automatically and without fees, in additional shares of the Company. Also, up to \$10,000 in Company shares may be purchased each quarter with optional cash payments. All administration costs are paid by the Company. Approximately 40 per cent of registered shareholders are enrolled in the plan. A brochure containing information on the dividend reinvestment and stock purchase plan may be obtained by calling CIBC Mellon Trust Company.

Stock registrar and transfer agent

CIBC Mellon Trust Company

Bond trustee, registrar and transfer agent

Computershare Investor Services, and CIBC Mellon Trust Company

Annual information form

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

Common share price range*

	January	February	March	April	May	June	July	August	September	October	November	December
High	\$ 36.35	38.25	38.15	36.00	32.85	34.35	33.95	33.50	34.00	32.10	33.00	32.00
Low	\$ 31.25	32.70	34.00	32.40	30.90	29.51	31.00	31.40	26.51	28.25	28.30	29.30
Close	\$ 36.30	34.30	35.85	32.40	31.50	34.35	32.15	32.85	30.97	29.70	30.30	29.98

Volume 1,655,900 2,001,700 1,708,000 1,325,900 1,733,000 2,321,500 1,019,800 917,000 1,128,900 2,073,900 2,302,800 1,183,600

* Toronto Stock Exchange

Glossary of terms

Words we use

Aliant Horizons Inc.: The division of Aliant responsible for emerging business companies Innovatia, Prexar and AMI Offshore Inc., as well as its minority investments in companies like iMagicTV, Exigen Ltd. and Voice Mobility International.

Aliant One: A bundling of Aliant services into one offering for the customer. This includes wireless, Internet and core telephony services like local and long distance. This may also include digital television services.

Broadband: The volume of information that can be transmitted through a cable or fibre at any one time is measured in bandwidth. Broadband has the capability to carry enormous amounts of information enabling Aliant to deliver new products and services to its customers.

Bundles: A combination of different products and services available to the customer. The price of a bundle is usually less than the price of the individual services that form the bundle, generating additional value for customers.

Contribution regime: A national collection of pooled funds from telecommunications service providers who operate in Canada. This collection serves to subsidize the cost of local telephone service for residential customers living in rural areas.

Data: Information that is encoded and transmitted to customers via electronic means which can then be downloaded and analyzed.

E-commerce/Electronic Commerce: Business activity enabled by electronic communications applications, including business-to-business transactions and business-to-customer/customer-to-business exchanges.

GAN (INMARSAT Global Area Network terminal): A satellite terminal, which provides a 64kb/s ISDN channel by connecting to a customized version of a videophone. Reporters covering stories in remote areas use this service to provide live interviews as well as to send video and voice reports to the newsroom.

INMARSAT B: An international marine satellite service that provides mobile communications to marine customers like the United States Navy. This satellite service enables customers to send and receive voice, fax and data signals simultaneously over a single channel from anywhere in the world.

Interactive Knowledge or E-learning: The ability to deliver training via the Internet to provide faster, more timely, and relevant educational opportunities to learners who are geographically dispersed.

Internet Protocol (IP): Software that tracks the Internet address of nodes, routes outgoing messages, and recognizes and routes incoming messages.

ISDN (Integrated Services Digital Network): A set of communications standards allowing a single channel (wireline or wireless) to carry digital and broadband network services like voice, fax, Internet and video.

ISP (Internet Service Provider): A company that primarily delivers Internet services. Prexar, Aliant's ISP in New England, offers customers dial-up and high-speed Internet services.

NterWeb: Innovatia's Web-based software platform that enables the computer networks of governments and corporations to interact with citizens and customers directly through wireless devices, the Internet and voice response.

PDA (Personal Digital Assistant): A portable device, which connects to a computer or network through a direct or wireless connection.

Organic growth: Refers to how much a company has expanded by means other than acquisition or merger.

Wireless: The communications network and the related equipment that transmits conversations and information using radio waves rather than wires.

It's all about change

Annual and special meeting of shareholders
Fairmont Newfoundland Hotel
St. John's, Newfoundland and Labrador
9:00 a.m. (local time)
Friday, April 19, 2002

The annual and special meeting will be webcast at www.aliant.ca

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

