

It's all about change

Our customers are changing. Our company is changing.

Our vision remains the same. Second quarter report (Period ending June 30, 2002)

Amy Vanessa Francis, customer
"High-speed Internet makes
life a breeze. I use it everyday
for school projects, checking
my email and just surfing."

Net income up 38%

Financial highlights

(millions of dollars except earnings per common share amounts)

	Three months		Six months	
	2002	2001	2002	2001
Operating revenues	\$ 670	\$ 659	\$ 1,316	\$ 1,297
EBITDA ¹	\$ 247	\$ 251	\$ 475	\$ 462
Net income applicable to common shares ²	\$ 82	\$ 60	\$ 133	\$ 74
Earnings per common share	\$ 0.59	\$ 0.44	\$ 0.96	\$ 0.55

¹ Earnings before interest, taxes, depreciation and amortization

² Before adjustments for changes in accounting policies



Letter to shareholders

Strength and integrity

During the past several years, we have paid considerable attention to our financial strength and integrity. The value of that attention has never been more apparent. Almost daily we read headlines about companies in our industry facing financial difficulties. In contrast, I can point to a host of financial strengths at Aliant – a strong balance sheet, abundant free cash flow, and a best-in-the-industry debt ratio. It's also important to note that our financial reporting has received praise for being transparent and complete. Aliant is built on a rock solid foundation. The integrity of our management and our management systems are real assets in today's market.

Net income up 38 per cent

We are focusing on customer retention and on expanding our customer base to generate new growth and increase shareholder value. The success of this strategy is evident in our second quarter results. Net income applicable to common shares increased 38 per cent to \$82 million, up from \$60 million in the second quarter of last year. Earnings per share grew 34 per cent to \$0.59, while revenues for the quarter grew \$11 million, or two per cent, to \$670 million.

Revenue growth – all organic

Revenue growth came largely from our wireless and Internet operations, up a robust 11 per cent and 12 per cent, respectively, for the quarter. Revenue growth also came from our remote communications and information technology businesses. Increased INMARSAT traffic propelled revenue from our remote communications business to an 18 per cent increase over the second quarter of 2001, while revenues from our information technology business grew by 14 per cent. Offsetting these revenue gains was the impact of the 2001 Canadian Radio-television and Telecommunications Commission (CRTC) cost subsidy decision, which reduced local telecommunications revenues by \$30 million in the quarter (\$56 million year to date).

EBITDA down on CRTC decision

EBITDA (earnings before interest, taxes, depreciation and amortization) was \$247 million for the second quarter, a decline of one per cent from \$251 million for the same period last year. Excluding regulatory



Jay Forbes, president and CEO

impacts, EBITDA would have been \$266 million in the second quarter, an increase of six per cent.

Total cash operating expenses for the quarter were \$423 million, up four per cent from \$408 million. Capital expenditures for the second quarter were \$115 million, up 16 per cent when compared to the same period in 2001, but down 11 per cent year to date.

Dividend up 11 per cent

During the first six months of 2002 we generated \$51 million in free cash flow. Income applicable to common shares increased 80 per cent (36 per cent when adjusted for accounting policy changes). In light of our strong results the board of directors has raised the dividend on common shares by 11 per cent to \$0.25 per share and declared a dividend payable on September 30, 2002 to shareholders of record on September 15, 2002. The board of directors also declared a preferred share dividend of \$0.340625 per preference share, payable on September 30, 2002 to shareholders of record on September 15, 2002.

Share buy-back

On July 18, 2002, Aliant Inc. announced acceptance by the Toronto Stock Exchange of notice of Aliant's intention to purchase from time to time, if it is considered advisable, up to 1,600,000 of its outstanding common shares on the Toronto Stock Exchange, representing less than 1.1 per cent of the issued and outstanding common shares of Aliant as of the date hereof; Aliant currently has 139,567,382 common shares outstanding.

Under the bid the company would acquire, from time to time, its common shares at the market price from cash through the facilities of the Toronto Stock Exchange.

We believe that such purchases are in the best interests of Aliant and a desirable use of corporate funds. Purchases of common shares may be made during the 12-month period commencing July 22, 2002 ending on July 21, 2003. All common shares purchased will be cancelled by Aliant.

Guidance maintained

We are maintaining the financial guidance provided earlier in the year. On a consolidated basis, we expect annual revenues of \$2.680 billion to \$2.760 billion, or three per cent to six per cent growth over last year. EBITDA is expected to be in the range of \$1.000 billion to \$1.045 billion for growth of three per cent to seven per cent over 2001. As of the end of the second quarter, we are anticipating our financial results to finish the year in the lower half of the guidance ranges.

Introducing our new CFO

I am very pleased to welcome Barry Kydd to Aliant. Barry joins us as executive vice president and chief financial officer. He brings extensive financial management experience in the technology sector to the job. Most recently, Barry was vice president of global financial operations at Lucent Technologies. He has also held a number of senior financial positions in the aerospace, health, and natural resources industries.

Looking ahead

Aliant is financially and operationally strong. Our businesses have performed well, and we are positioned for steady and managed growth during the current economic uncertainty. When the industry recovers, as I believe it will in the next 18 to 24 months, we will be ready for the next wave of growth. In the meantime, we will work our assets for maximum efficiency and profit.

In our telecommunications business we are sharpening our focus on customer retention and on maximizing revenue from existing infrastructure. We will continue investing in the high growth areas of broadband

and wireless. Our information technology business will capitalize on its considerable expertise in telecommunications to serve small- to medium-sized businesses and to add strength to our business retention strategy. And, we will focus on becoming the premier provider of e-learning services – a business with enormous potential – to the North American telecommunications and information technology industries.

NET INCOME FOR THE SECOND

QUARTER INCREASED 38 PER CENT TO

\$82 million.

EARNINGS PER COMMON SHARE

GREW 34 PER CENT TO \$0.59.

The telecommunications industry remains in turmoil as over capacity results in consolidation and business failure. This is not the time to pursue aggressive new investments. Based on the positive financial results achieved so far this year, we are in a strong position to weather the downturn and to lead the sector as favour returns to the capital markets.

As always, I value the trust you have shown in our company with your investment. You can be certain that we are working hard to provide you with the best possible return.

Yours sincerely,



Jay Forbes
President and CEO
July 18, 2002

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 Inc.'s actual future experience. Aliant Inc. 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.

HIGHLIGHTS OF ALIANT'S SECOND QUARTER AND YEAR-TO-DATE RESULTS

Aliant Inc. ("Aliant" or the "Company") consolidated revenues remained strong at \$670.1 million for the second quarter of 2002, \$1.3 billion for the first six months of 2002, a 1.7 per cent increase for the quarter and 1.4 per cent for the first six months. Telecommunications revenues decreased 4.3 per cent for the second quarter of 2002 (4.9 per cent for the first six months of 2002) due to a decline in local revenues resulting from previous decisions by the Canadian Radio-television and Telecommunications Commission ("CRTC"). Continued growth in Aliant Telecom Inc.'s ("Aliant Telecom") wireless and Internet revenues partially

offset these declines. Information technology revenues increased 13.7 per cent for the quarter and 12.1 per cent year to date as product sales grew substantially. Remote communications revenues increased 18.2 per cent for the second quarter this year over 2001 (21.8 per cent increase for the first six months of 2002 over the same period last year) based on growing demand for INMARSAT high-speed data services by military and media customers.

Earnings before interest, taxes, depreciation and amortization ("EBITDA"¹) declined by 1.4 per cent to \$247.1 million for the second quarter in 2002 from \$250.5 million a year ago. EBITDA for the first six months of 2002 grew by 2.8 per cent. The EBITDA margin for the first six months of 2002 (EBITDA as a percentage of revenues) increased to 36.1 per cent in 2002 from 35.6 per cent in 2001. Consolidated net income applicable to common shares was \$82.1 million, or \$0.59 per share for the second quarter in 2002 compared with \$59.5 million or \$0.44 per share for 2001. This represents growth of 38.0 per cent and 34.1 per cent respectively, with a growth rate of 80.3 per cent and 74.5 per cent for the first six months of 2002.

Aliant Inc. consolidated operating results (thousands of dollars except per share amounts)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
		(restated)			(restated)	
Operating revenues	\$ 670,109	\$ 658,847	1.7	\$1,315,756	\$1,297,206	1.4
Cost of operating revenues	178,200	167,407	6.4	369,950	345,614	7.0
Net operating revenues	491,909	491,440	0.1	945,806	951,592	(0.6)
Operating expenses	244,842	240,913	1.6	470,863	489,481	(3.8)
EBITDA	247,067	250,527	(1.4)	474,943	462,111	2.8
Depreciation and amortization	106,372	107,997	(1.5)	214,223	216,183	(0.9)
Operating income	140,695	142,530	(1.3)	260,720	245,928	6.0
Other income (expense)	12,013	(5,289)	—	10,538	(3,748)	—
Gain (loss) on foreign exchange	24,402	22,612	7.9	23,944	(5,188)	—
Interest	32,435	41,933	(22.7)	66,180	84,095	(21.3)
Income taxes	46,733	50,063	(6.7)	71,947	87,443	(17.7)
Non-controlling interest	13,440	6,482	107.3	19,120	(10,278)	—
Net income	84,502	61,375	37.7	137,955	75,732	82.2
Preferred share dividends	2,385	1,851	28.8	4,769	1,851	157.6
Net income applicable to common shares	\$ 82,117	\$ 59,524	38.0	\$ 133,186	\$ 73,881	80.3
Basic earnings per share	\$ 0.59	\$ 0.44	34.1	\$ 0.96	\$ 0.55	74.5

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 measure of liquidity.

Accounting policy changes

Goodwill

Previously, recorded goodwill was amortized on a straightline basis over the estimated life of ten to twenty years. In addition, the Company would periodically evaluate 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 was charged to earnings in the year such impairment was determined.

Under a new Canadian Institute of Chartered Accountants (CICA) accounting standard, goodwill and intangibles with an indefinite life are no longer amortized. Entities were also required to perform an impairment test as of January 1, 2002 to ascertain whether they should recognize a decline in the carrying value of any recorded goodwill balances. An impairment provision of \$8.6 million has been recognized as a result of the

adoption of this new standard and has been charged to opening retained earnings. This impairment test must be performed annually and any subsequent impairment provisions deemed necessary by management would be charged to income at that date.

Consistent with this new standard, the Company has not recorded any charge relating to the amortization of goodwill in 2002. During the second quarter of 2001, the Company recorded \$6.0 million (\$12.2 million for the first six months of 2001) in depreciation and amortization expense relating to the amortization of goodwill.

Foreign currency translation

Effective January 1, 2002, the Company adopted the CICA's new recommendations for foreign currency translation. All exchange gains and losses arising from the translation of foreign currency items are now included in income, introducing additional volatility

Net income reconciliation (thousands of dollars)

	Six months ended June 30
2001 net income applicable to common shares, as restated	\$ 73,881
Factors impacting year over year growth:	
EBITDA growth in 2002	12,832
Goodwill amortization recorded in 2001	12,168
Increased depreciation and amortization in 2002	(8,458)
Dilution gain, net of taxes, recorded in 2002	25,857
Investment write downs, net of taxes, recorded in 2002	(18,091)
Increased gain on foreign exchange, net of taxes and non-controlling interest	15,095
Reduction in interest expense in 2002	17,915
Other miscellaneous items in other income (expense)	3,181
Tax impact of increased net earnings offset by decline in statutory tax rate	8,191
Tax benefits recognized from loss carry forward in 2002	6,775
Change in non-controlling interest in 2002	(13,242)
Incremental preferred share dividends	(2,918)
2002 reported net income applicable to common shares	\$ 133,186

Impact of accounting changes on financial results (thousands of dollars, except per share amounts)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Reported net income applicable						
to common shares	\$ 82,117	\$ 59,524	38.0	\$ 133,186	\$ 73,881	80.3
Goodwill amortization	—	6,014	—	—	12,168	—
Foreign exchange (gain) loss	(13,088)	(14,138)	(7.4)	(12,748)	2,347	—
Net income applicable to common shares						
(adjusted for changes in accounting policies) ²	\$ 69,029	\$ 51,400	34.3	\$ 120,438	\$ 88,396	36.3
Reported basic EPS	\$ 0.59	\$ 0.44	34.1	\$ 0.96	\$ 0.55	74.5
EPS (adjusted for changes in accounting policies) ²	\$ 0.50	\$ 0.38	31.6	\$ 0.87	\$ 0.66	31.8

to the net earnings of the Company depending on exchange rate fluctuation. Previously, unrealized foreign exchange gains or losses in relation to long-term debt balances were deferred and amortized over the remaining term of the related debt. As required under the new recommendations, this change was adopted retroactively with restatement of prior period balances. As a result of this change, for the quarter ended June 30, 2001, foreign exchange gains were \$22.6 million, increasing net income by \$14.1 million. During the first six months of 2001, foreign exchange losses were \$5.2 million, decreasing net income by \$2.3 million. See note 2 to the Company's unaudited interim consolidated financial statements for more detailed information.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new standards of the Canadian Institute of Chartered Accountants for stock-based compensation. All direct awards of stock to employees are to be accounted for using a fair-value method of accounting. As a result of this change, the Company charged \$0.4 million against opening retained earnings. See note 2 to the Company's unaudited interim consolidated financial statements for more detailed information.

Restructuring charge

In the fourth quarter of 2001, Aliant recorded a \$111.2 million restructuring charge comprised primarily of staff severance costs and the cost of consolidating various activities into one operating unit. Total operating savings to date are \$16.8 million, translating into an annual run rate of \$33.6 million at June 30, 2002. The additional synergies required to reach the targeted \$56.0 million annual run rate will be realized through a selected retirement program, with approximately 250 employees expected to leave the Company in 2002. There had been a delay implementing this voluntary separation offer for unionized employees pending the outcome of a petition by the union before the Canadian Industrial Relations Board (CIRB). Earlier this month, the CIRB ruled against the petition, paving the way for the Company to offer its employees the selected retirement program.

Consolidated 2002 guidance

Earlier in the year, management provided the following guidance:

- consolidated revenue is expected to grow 3 per cent to 6 per cent to \$2.680 billion to \$2.760 billion in 2002;
- EBITDA is expected to grow 3 per cent to 7 per cent to \$1.000 billion to \$1.045 billion;
- EPS before restructuring charge is expected to grow 22 per cent to 45 per cent to \$1.60 to \$1.90; and,
- capital expenditures are anticipated to be between \$440 million and \$465 million, compared to \$466 million spent in 2001.

With the exception of EPS, the Company is expecting to perform in the lower half of the guidance ranges.

TELECOMMUNICATIONS

The telecommunications line of business is comprised of the operations of Aliant Telecom, its subsidiaries and Aliant's 87 per cent ownership of Aliant ActiMedia, a telephone directory business operating in Atlantic Canada. Telecommunications revenues decreased 4.3 per cent in the second quarter of 2002 to \$453.6 million and 4.9 per cent in the first six months of 2002 to \$867.9 million due to a decline in local revenues resulting from the CRTC's banding decision, decline in contribution rate to the national pool and cost subsidy rules. Excluding the impact of this decision, revenue growth was 2.0 per cent for the second quarter of 2002, 1.3 per cent year to date. Long distance revenues decreased slightly due to continued downward pressure on business toll pricing. Sales of telecom equipment were lower as individual large sales in the second quarter of 2001 were not repeated in 2002. Continued growth in Aliant Telecom's wireless and Internet revenues partially offset these declines with revenue growth of 11.3 per cent and 11.7 per cent respectively for the second quarter of 2002, 11.4 per cent and 22.4 per cent respectively for the first six months of 2002.

The decline in revenues for the second quarter of 2002 was partially offset by an 18.6 per cent reduction in cost of revenues, primarily due to lower contribution payments into the national pool and reduced product sales.

Impact of contribution regime changes (millions of dollars)

	Quarter ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Decreased local revenues	\$ (29.9)	\$ (4.1)	\$ (56.1)	\$ (8.3)
Decreased long distance revenues	—	(6.4)	—	(11.1)
Total revenue impact	(29.9)	(10.5)	(56.1)	(19.4)
Decreased settlement expense	—	4.3	—	6.6
Decreased contribution expense	10.5	13.2	20.2	23.5
Total cost of revenues impact	10.5	17.5	20.2	30.1
Net EBITDA impact	\$ (19.4)	\$ 7.0	\$ (35.9)	\$ 10.7

Operating expenses declined 2.0 per cent for the second quarter of 2002, 6.1 per cent for the first six months of the year. EBITDA declined 2.4 per cent from \$225.7 million in the second quarter of 2001 to \$220.3 million in the second quarter of 2002. During the first six months of 2002 EBITDA grew 0.8 per cent to \$417.2 million.

Regulatory changes

On May 30, 2002, the CRTC released its price cap decision that prescribes new rules to determine the rates charged for certain local telephone services. The decision is estimated to have a negative EBITDA impact of \$25.0 million in 2003. During 2002, the decision is expected to negatively impact EBITDA by \$6.0 million to \$10.0 million. The impact of the decision on Aliant may change following further analysis and clarification from the CRTC on the deferral account mechanism. The new price cap regime replaces a price cap framework that ended on May 31, 2002 and will continue until June 2006.

In addition to the CRTC rulings discussed above, effective January 1, 2002, all service providers must pay 1.4 per cent (4.5 per cent – 2001) on certain of their telecommunications revenues into a national contribution pool. Local service providers are then able to draw from the pool to help offset the costs of providing basic local services in high-cost areas. These changes have reduced both Aliant Telecom's revenues and related cost of revenues, with the decrease in costs only partially offsetting decreased revenues. EBITDA for the second quarter of 2002 was negatively impacted by \$19.4 million compared to a \$7.0 million positive impact during the same period in 2001, a \$26.4 million

decrease. Excluding the contribution decision, EBITDA growth would be 6.2 per cent for the quarter (9.4 per cent year to date).

Management anticipates annual revenues of \$1,803 million to \$1,868 million or 4 per cent to 7 per cent growth (excluding regulatory impacts over last year). EBITDA is expected in the range of \$875 million to \$900 million, growth of 8 per cent to 11 per cent (excluding regulatory impacts over 2001). This is consistent with previously announced guidance.

Revenues

Local

Local revenues are earned through the provision of voice and data network access, telephone set rentals, enhanced service options and contribution payments. Total local revenues decreased by 11.4 per cent (\$24.8 million) to \$193.5 million for the second quarter of 2002 and by 10.8 per cent to \$383.5 million for the first half of 2002 due to a \$29.9 million decrease in contribution revenues for the quarter and \$56.1 million for the first six months of 2002, as outlined previously. The loss of contribution revenues was partially offset by higher network access services (NAS) revenues from price increases implemented in mid 2001, and growth in both features and data access services revenues. Without the loss of revenues from the CRTC contribution changes, local revenues would have increased 2.3 per cent for the second quarter of 2002 and 2.2 per cent for the first six months of 2002.

Local voice NAS revenue increased \$2.8 million to

Telecommunications operating results (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Local	\$ 193,514	\$ 218,358	(11.4)	\$ 383,473	\$ 430,122	(10.8)
Long distance	101,539	101,927	(0.4)	203,084	206,194	(1.5)
Wireless	67,404	60,585	11.3	128,628	115,497	11.4
Internet	22,439	20,094	11.7	44,287	36,178	22.4
Other	68,712	73,026	(5.9)	108,420	124,291	(12.8)
Total operating revenues	453,608	473,990	(4.3)	867,892	912,282	(4.9)
Cost of operating revenues	49,012	60,201	(18.6)	94,902	119,484	(20.6)
Net operating revenues	404,596	413,789	(2.2)	772,990	792,798	(2.5)
Operating expenses	184,307	188,067	(2.0)	355,771	378,776	(6.1)
EBITDA	220,289	225,722	(2.4)	417,219	414,022	0.8
Depreciation and amortization	90,135	87,830	2.6	181,462	175,725	3.3
Operating income	130,154	137,892	(5.6)	235,757	238,297	(1.1)
Other income (expense)	530	176	201.1	(313)	1,268	(124.7)
Interest	22,033	26,127	(15.7)	43,721	50,400	(13.3)
Income taxes	43,673	51,318	(14.9)	75,418	86,634	(12.9)
Non-controlling interest	223	2	—	416	291	43.0
Net income	\$ 64,755	\$ 60,621	6.8	\$ 115,889	\$ 102,240	13.3

\$115.9 million for the second quarter of 2002, a 2.5 per cent increase over the same period in 2001 due to price increases implemented mid 2001. NAS volumes declined 0.5 per cent as at June 30, 2002 compared to June 30, 2001 due to a combination of competition and cannibalization. Telecom's overall market share for local services remains strong at 97.1 per cent due to its strategy of retaining customers through targeted bundled service offerings. Residential customer acceptance of these bundled service offerings has resulted in a 26 per cent increase in the number of packages over the second quarter in 2001, resulting in approximately 32 per cent of residential customers participating. Revenue from the provision of enhanced service features grew \$2.1 million or 9.6 per cent in the quarter and \$4.1 million or 9.5 per cent for the first six months of 2002, resulting from higher penetration from bundle offerings and increased prices. Revenue from the provision of local data access services grew \$2.0 million or 9.1 per cent in the second quarter and \$3.6 million or 8.1 per cent for the first six months of 2002 from growth in data circuits in services synonymous with continued growth in the information based economy.

Long distance

Aliant Telecom's minute volumes increased by 1.9 per cent from 872 million in the second quarter of 2001 to 889 million in the second quarter of 2002. This brings minute volumes to 1.791 billion for the first six months of 2002, up 1.8 per cent from the first half of 2001. The large base of call-centre customers that Aliant Telecom has been able to attract in Atlantic Canada continues to be a significant driver of long distance minute volumes. 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 maintained its market share of approximately 88 per cent of the Atlantic Canada long distance market.

Lower average per-minute prices continue to offset the impact of demand growth on long distance revenues. As a result, long distance revenues remained relatively flat for the quarter, with a marginal decline of 1.5 per cent or \$3.1 million for the first six months of 2002.

Wireless

Wireless revenues are earned through the provision

of cellular, paging and mobile radio services. Aliant Telecom's wireless business continued its strong, steady growth, with revenues increasing 11.3 per cent to \$67.4 million for the second quarter of 2002, 11.4 per cent to \$128.6 million for the first six months of 2002. Aliant Telecom maintains an industry-leading market share (approximately 75 per cent) for cellular services, and continued new demand for these services is reflected in customer growth. Aliant's cellular customers numbered 512,635 at June 30, 2002, representing growth of 19.7 per cent over 2001, encompassing a 107.0 per cent increase in digital subscribers.

Part of the growing demand for cellular services is due to the growth in new digital services as geographical digital coverage is expanded. As at June 30, 2002 approximately 59 per cent of Atlantic Canada had access to digital cellular service. Prepaid wireless services continue 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 (ARPC), which declined by 8.8 per cent to \$40.76 per month for the second quarter of 2002 compared with \$44.68 per month for the same period last year. Recent price changes should see prepaid ARPC increasing significantly in 2003. Excluding the prepaid customer, average revenue per postpaid customer remained strong at \$46.60 per month in 2002 compared to \$48.08 per month in 2001.

Internet

Internet services continued to generate tremendous growth over the past year as the number of Aliant Telecom's high-speed customers increased by 55.8 per cent to 86,362 and the number of regular dialup customers grew by 4.8 per cent to 194,648. Revenues from Internet services increased 11.7 per cent to \$22.4 million for the quarter, contributing to the 22.4 per cent growth year to date. At the end of the second quarter of 2002, high-speed Internet services pass 60 per cent of the homes in Atlantic Canada.

Other

Other telecommunications revenues are primarily derived from telephone directory advertising, equipment sales and newer revenue sources such as e-Commerce and network management. Total other revenues were down \$4.3 million, or 5.9 per cent for the second quarter of

Other revenues (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Product sales	\$ 24,663	\$ 27,541	(10.4)	\$ 43,395	\$ 55,051	(21.2)
Directory revenues	25,339	24,259	4.5	27,053	25,964	4.2
Other miscellaneous	18,710	21,226	(11.9)	37,972	43,276	(12.3)
	\$ 68,712	\$ 73,026	(5.9)	\$ 108,420	\$ 124,291	(12.8)

2002 and \$15.9 million or 12.8 per cent in the first six months of 2002. Sales of telecom equipment were lower by \$2.9 million in the second quarter of 2002 as individually large sales in data equipment in the second quarter of 2001 were not repeated in 2002. The year-to-date comparison is further impacted by \$4.7 million in trunk mobile radio set sales in 2001 that did not occur in 2002. The \$5.3 million or 12.3 per cent decrease in other miscellaneous revenues year to date is partially due to lower pole attachment revenues resulting from the sale of poles in Newfoundland and Labrador in the third quarter of 2001.

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 18.6 per cent, or \$11.2 million decrease in cost of revenues compared with the second quarter of 2001 and 20.6 per cent or \$24.6 million decrease for the first six months of 2002 was mainly due to lower contribution payments of \$10.5 million or 71.4 per cent for the quarter and \$20.2 million or 68.9 per cent so far this year, resulting from the new contribution regime.

Operating expenses

Telecommunications operating expenses were \$184.3 million for the second quarter of 2002, down 2.0 per cent over last year and bringing the decrease to 6.1 per cent for the first six months of 2002. This is a significant accomplishment given that revenues before the CRTC's contribution decision impact are relatively unchanged from 2001. Operating expenses have decreased as persistent efforts to reduce costs, combined with the result of the 2001 restructuring charge and Bell alignment initiative as discussed below have generated \$23.0 million in savings in the first six months of the year over 2001.

Depreciation and amortization

Telecommunications' depreciation and amortization expenses were up 2.6 per cent for the second quarter of 2002 and 3.3 per cent for the first six months of 2002 compared to last year due to a larger capital asset base. The focus of capital spending has shifted over the past two years from the traditional voice net-

work toward broadband and wireless, areas with high revenue-growth potential. In the first quarter of 2001, Aliant Telecom accelerated its capital program to meet the growing needs of customers in its broadband and wireless areas. Capital investments year to date have decreased by 12.0 per cent to \$190.1 million with the establishment of significant digital cellular and high-speed internet footprints in 2001. It is anticipated that annual capital expenditures will be in the range of \$375 to \$400 million in 2002.

Bell alignment initiative

Late in 2001, Aliant Telecom and Bell Canada agreed to work more closely together to achieve shared goals of improving customer service, reducing costs (expense and capital) and growing revenues.

We have identified that there are ways both companies can grow by working together and leveraging our respective strengths that when shared, will make both of our companies stronger. Together we are finding ways to reduce costs and also bring new products and services to our customers, enhancing our overall financial picture.

In the first six months of 2002, the two companies reached agreement on a number of initiatives that are expected to provide Aliant Telecom with \$27 million in annualized run rate EBITDA improvement and over \$15 million in capital savings. These initiatives include a common voice mail and email platform, shared creative work for advertising campaigns and lower cross border rates for calls terminating in the U.S. Results to date have produced \$4 million in EBITDA improvement and \$9 million in capital investment savings, and should allow Aliant Telecom to reach its 2002 annualized run rate target of \$30 million in EBITDA improvement. Based on this initial success, we will continue to pursue the identification of additional synergies throughout 2002, with the goal of generating approximately \$43 million in EBITDA improvement and approximately \$9 million in additional capital savings in 2003.

In addition, Aliant Telecom has chosen to take advantage of our closer working relationship with Bell Canada to offer Bell ExpressVu as the digital television option for our customers throughout Atlantic Canada and will no longer offer VibeVision.

Cost of revenues (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Settlement costs	\$ 12,575	\$ 11,336	10.9	\$ 24,839	\$ 22,945	8.3
Contribution payments	4,220	14,758	(71.4)	9,110	29,280	(68.9)
Cost of goods sold	30,095	30,272	(0.6)	55,524	60,685	(8.5)
Other	2,122	3,835	(44.7)	5,429	6,574	(17.4)
	\$ 49,012	\$ 60,201	(18.6)	\$ 94,902	\$ 119,484	(20.6)

INFORMATION TECHNOLOGY

Aliant's information technology (IT) line of business is operated by xwave, a wholly owned subsidiary. xwave's revenues increased 13.7 per cent for the second quarter of 2002 to \$103.7 million, contributing to a 12.1 per cent increase in revenues to \$225.2 million for the first six months of 2002. Sales in the higher-margin IT services business increased by 1.8 per cent over the same quarter of last year, while sales in the fulfillment business increased by 40.9 per cent over the second quarter of 2001. An increase in higher-margin service revenues, coupled with improved gross margin management in the fulfillment business, has led to an improved EBITDA margin in the second quarter (8.5 per cent vs 7.1 per cent), and a third consecutive quarter of EBITDA growth.

xwave continues to be an important supplier to other Aliant companies, and especially to Aliant Telecom as it makes significant investments in network systems and operating efficiency programs. That said, sales made to other Aliant lines of business have decreased to 35.5 per cent (from 41.4 per cent) of total sales for the second quarter of 2002.

Revenues from IT consulting, technical support services and data processing services increased by 1.8 per cent to \$64.6 million for the second quarter of 2002, reversing the declines seen up until the previous quarter. As a result, the year-over-year revenue decline has been reduced to 1.6 per cent (\$2.1 million) for the first six months of 2002. Product sales from xwave's IT fulfillment business grew significantly, 40.9 per cent to \$39.1 million for the quarter, bringing the year-to-date growth to 36.5 per cent. The 9.3 per cent gross margin on product sales during the second quarter, 8.1 per cent year to date, decreased from 10.3 per cent and 9.8 per cent in 2001 due to competitive pressures resulting

from the economic downturn. Similarly, gross margin on service revenues declined by 4.0 per cent during the quarter, 4.7 per cent for the first six months of the year, to 29.2 per cent and 30.1 per cent in 2002.

Consistent with earlier guidance, xwave is expected to deliver annual 2002 revenues in the range of \$400 to \$450 million, an increase of 7 per cent to 20 per cent over 2001, and EBITDA in the range of \$33 to \$40 million for 2002.

REMOTE COMMUNICATIONS

Aliant's remote communications line of business is represented by its ownership of Stratos Global Corporation ("Stratos"). During the second quarter of 2002, Aliant's ownership of Stratos was reduced from 61 per cent to 53 per cent. Remote communications' revenue increased by 18.2 per cent to \$128.7 million for the second quarter of 2002 from \$108.9 million in 2001, bringing their revenue growth for the first six months of 2002 to 21.8 per cent or \$45.7 million. EBITDA for the second quarter of 2002 decreased 15.8 per cent to \$23.1 million from \$27.5 million in the same period in 2001 as lower margin product revenues, including the U.S. Navy contract, increased and operating expenses increased as foreign currency fluctuations were experienced. Stratos is expecting annual revenues in the range of \$485 to \$498 million, 8 per cent to 10 per cent growth over 2001 and EBITDA in the range of \$110 to \$115 million representing growth of 10 per cent to 15 per cent.

In May 2002, Stratos issued \$148 million of new equity, including Aliant's participation of \$31 million. The net proceeds were used by Stratos to pay down its bridge credit facility. A dilution gain of \$32.5 million was recorded by Aliant in Other income during the quarter.

Information technology operating results (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Services	\$ 64,589	\$ 63,470	1.8	\$ 126,450	\$ 128,569	(1.6)
Product sales	39,066	27,722	40.9	98,731	72,337	36.5
Total operating revenues	103,655	91,192	13.7	225,181	200,906	12.1
Cost of operating revenues	35,430	24,865	42.5	90,690	65,271	38.9
Net operating revenues	68,225	66,327	2.9	134,491	135,635	(0.8)
Operating expenses	59,390	57,301	3.6	117,076	115,989	0.9
EBITDA	8,835	9,026	(2.1)	17,415	19,646	(11.4)
Depreciation and amortization	2,945	3,613	(18.5)	5,800	7,133	(18.7)
Operating income	5,890	5,413	8.8	11,615	12,513	(7.2)
Other income	43	106	(59.4)	72	133	(45.9)
Interest	384	631	(39.1)	757	1,096	(30.9)
Income taxes	2,519	2,595	(2.9)	5,003	5,949	(15.9)
Non-controlling interest	6	(75)	108.0	(27)	(91)	70.3
Net income	\$ 3,024	\$ 2,368	27.7	\$ 5,954	\$ 5,692	4.6

Revenue

Mobile satellite revenues increased 30.2 per cent from \$71.9 million for the second quarter in 2001 to \$93.6 million in the second quarter of 2002, and increased 31.9 per cent in the first six months of the year to \$184.2 million, due primarily to increased military and media demand for high-speed INMARSAT data services. The U.S. Navy contract also began to produce revenue in the second quarter after a successful launch of services. Broadband revenues decreased 5.1 per cent in the quarter from \$37.1 million for the second quarter of 2001 to \$35.2 million in the same period this year due to decreased drilling activity in the Gulf of Mexico and North Sea resulting from lower oil prices. Broadband revenues increased 1.6 per cent in the first six months of 2002 to \$71.1 million.

Cost of revenues for the quarter increased 22.8 per cent to \$83.3 million in 2002 from \$67.8 million in 2001, 24.7 per cent to \$161.9 million in the first six months of 2002, in conjunction with increased revenues. Gross margin as a percentage of revenue was 36.6 per cent in the first half of 2002 compared to 38.0 per cent for the same period in 2001. The decrease in gross margin is related to a different product mix in 2002 as revenue associated with lower margin U.S. Navy contract has increased in 2002.

Expenses

Operating expenses increased 64.0 per cent to \$22.3 million in the second quarter of 2002 from \$13.6 million in the second quarter of 2001 due to foreign currency fluctuations. For the first six months of 2002, operating expenses increased 13.2 per cent to \$38.8 million from \$34.3 million in the same period last year. As a percentage of revenue, operating expenses for the second quarter of 2002 were 17.3 per cent compared to 12.5 per cent for the same quarter in 2001.

Depreciation and amortization decreased \$2.7 million in the second quarter of 2002 and \$6.3 million for the first six months of 2002 compared with the prior year primarily as a result of the cessation of goodwill amortization in 2002. Goodwill amortization in the second quarter of 2001 was \$2.3 million, \$5.0 million for the first half of 2001.

Other expenses recorded in 2001 represented costs of integrating the operations of British Telecom's Aeronautic and Marine business; there were no continuing costs in 2002.

EMERGING BUSINESS

Aliant's emerging businesses are grouped under the ownership of Aliant Horizons Inc. and include wholly owned Innovatia Inc. ("Innovatia"), 96 per cent owned Prexar LLC ("Prexar") and 57 per cent owned AMI Offshore Inc. (AMI).

- AMI provides process and systems control technical services, and contract manufacturing solutions to the offshore oil and gas and other industries.
- Prexar is an Internet services provider operating in the northern New England States.
- Innovatia is focused on innovating operational process excellence for the telecommunications sector in the areas of customer care, sales support and knowledge asset management.

Acknowledging the turmoil in the global telecommunications industry and the challenge it represents to growing revenues, Aliant has begun a managed exit from all of its emerging businesses except its knowledge management business within Innovatia.

- The majority interest in K&D Pratt and ASCO Canada were sold in December 2001; Aliant and AMI are considering several opportunities for the sale of all or parts of the remaining company;

Remote communications operating results (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Operating revenues	\$ 128,749	\$ 108,918	18.2	\$ 255,289	\$ 209,559	21.8
Cost of operating revenues	83,305	67,830	22.8	161,902	129,876	24.7
Net operating revenues	45,444	41,088	10.6	93,387	79,683	17.2
Operating expenses	22,300	13,601	64.0	38,830	34,315	13.2
EBITDA	23,144	27,487	(15.8)	54,557	45,368	20.3
Depreciation and amortization	10,176	12,890	(21.1)	19,933	26,211	(24.0)
Operating income	12,968	14,597	(11.2)	34,624	19,157	80.7
Other income (expense)	193	(3,331)	(105.8)	—	(6,814)	—
Gain (loss) on foreign exchange	24,402	22,612	7.9	23,944	(5,188)	—
Interest	11,165	14,787	(24.5)	23,604	30,213	(21.9)
Income taxes	1,017	1,987	(48.8)	(3,462)	3,928	(188.1)
Non-controlling interest	12,895	6,652	93.9	17,968	(10,702)	267.9
Net income (loss)	\$ 12,486	\$ 10,452	19.5	\$ 20,458	\$ (16,284)	225.6

- The Company is actively considering several options for Prexar;
- Innovatia is in the final stage of transforming itself into an eLearning business providing pre- and post-sale technical support. Accordingly, its eWorld and LivingLAB businesses have been greatly scaled back with the remaining activities to be transferred to Aliant Telecom for assimilation with existing operations within that business unit. This will leave the knowledge management business, comprised of Interactive Knowledge (eLearning business) and the Nortel customer care center contract.

The decision to exit these businesses has necessitated a review of the carrying values for the emerging business investment portfolio and assets of subsidiary companies. The following represents management's best estimates of the respective declines in market value:

<i>(millions of dollars)</i>	<i>Income statement</i>	<i>Goodwill adjustment</i>
	<i>adjustment</i>	<i>(against Retained Earnings)</i>
AMI Offshore Inc.	\$ —	\$ 1.0
Prexar LLC	5.2	7.5
Voxcom Inc.	4.7	—
iMagicTV Inc.	10.6	—
Other	0.9	0.1
Total	\$ 21.4	\$ 8.6

The goodwill adjustment relates to the implementation of the new accounting standard on goodwill and other intangible assets.

Aliant's emerging business revenues decreased 34.0 per cent to \$23.6 million in the second quarter of 2002 from \$35.8 million in 2001, 31.6 per cent to \$50.6 million for the first six months of 2002 from \$74.0 million in 2001, due largely to the sale of K&D Pratt Limited and ASCO Canada in the fourth quarter of 2001. These businesses contributed

\$11.1 million in revenue during the second quarter of 2001, \$22.0 million in the first six months of 2001. EBITDA in the second quarter of 2002 improved by \$3.7 million due to a focus on reducing costs in light of lower revenues, bringing the year-to-date EBITDA improvement to 43.9 per cent. Other expense for the quarter and year to date includes \$21.4 million in investment write-downs recorded on long-term investments and various subsidiary assets (per table opposite).

At present, management remains comfortable with 2002 guidance of revenue between \$80 million and \$100 million and EBITDA between \$5 million and \$15 million, but would expect the actual results to trend to the lower end of this guidance range given the decisions to exit from the majority of the businesses.

OTHER CONSOLIDATED RESULTS

Other income (expense)

Aliant's other income increased \$17.3 million for the second quarter of 2002 and \$14.3 million for the first six months of the year compared with the same period last year. Other income includes gains on sales of assets and investments, and this quarter includes a dilution gain realized on Stratos Global as the Company reduced its ownership from 61 per cent to 53 per cent following the \$148 million Stratos equity offering in May. The gain totaled \$32.5 million (\$25.9 million after income tax) and was partially offset by investment write-downs recorded on Aliant's investment in iMagicTV Inc. and various portfolio investments as noted previously. This write-down totaled \$21.4 million (\$18.1 million after income tax).

Interest expense

Consolidated interest expense decreased from \$41.9 million in the second quarter of 2001 to \$32.4 million in the second quarter of 2002, contributing to a 21.3 per cent decrease for the first half of the year. This

Emerging business operating results *(thousands of dollars)*

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Operating revenues	\$ 23,611	\$ 35,786	(34.0)	\$ 50,643	\$ 73,992	(31.6)
Cost of operating revenues	10,345	15,327	(32.5)	22,342	31,800	(29.7)
Net operating revenues	13,266	20,459	(35.2)	28,301	42,192	(32.9)
Operating expenses	13,335	24,187	(44.9)	28,974	43,391	(33.2)
EBITDA	(69)	(3,728)	98.1	(673)	(1,199)	43.9
Depreciation and amortization	2,893	1,676	72.6	6,487	3,144	106.3
Operating loss	(2,962)	(5,404)	45.2	(7,160)	(4,343)	(64.9)
Other income (expense)	(23,396)	(2,172)	—	(23,401)	1,957	—
Interest	372	580	(35.9)	674	998	(32.5)
Income taxes	(4,793)	(2,511)	(90.9)	(6,557)	(1,252)	—
Non-controlling interest	316	(97)	—	763	224	240.6
Net income (loss)	\$ (22,253)	\$ (5,548)	—	\$ (25,441)	\$ (2,356)	—

is due to lower interest rates and reduced borrowings across all lines of business.

Interest expense in the telecommunications line of business was reduced by \$4.1 million for the second quarter of 2002 and \$6.7 million for the first six months of 2002, due to declining interest rates and reduced borrowings. Aliant Telecom has been able to reduce its interest costs in part by lowering its total debt position, but also by taking advantage of refinancing maturing long-term debt issues at lower interest rates in recent years. Also, the net proceeds from securitization of \$135.0 million of accounts receivable and the positive free cash flow that Aliant Telecom has been generating this year has been utilized by Aliant to reduce commercial paper borrowing and lower corporate interest costs.

A \$3.6 million reduction in second quarter interest expense in the remote communications line of business is primarily attributable to the repayment of debt by Stratos after completion of a \$148.0 million equity offering in May 2002.

The combined interest expense in all other lines of business and on holding company borrowings has declined overall in the last year. In addition to lower short-term interest rates, the issuance of \$175.0 million in preferred shares by Aliant during the second quarter of 2001, and the application of the net proceeds to reduce debt have helped reduce interest costs. Aliant's consolidated interest coverage ratio (before restructuring charge) has improved from 3.5 times for the twelve-months ended June 30, 2001 to 4.0 times for the twelve-months ended June 30, 2002.

Taxes

Aliant's consolidated income tax provision decreased by 6.7 per cent from \$50.1 million for the second quarter of 2001 to \$46.7 million in the second quarter of 2002 primarily due to a decline in statutory tax rates. During the first six months of 2002, a decrease in tax expense of Aliant by \$6.8 million has resulted from the recognition of tax benefits relating to a portion of the tax loss carry forward of one of its subsidiaries. The effective tax rate for the second quarter of 2002 was 35.79 per

cent a decline of 16.67 per cent over the same period in 2001. For the six month period ended June 2002 the effective rate was 33.62 per cent, a decline of 23.57 per cent compared to the first six months of 2001.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Aliant's operating cash flow before changes in non-cash working capital increased 16.0 per cent from \$287.5 million in 2001 to \$333.5 million in 2002. This increase can be mainly attributed to increased earnings from operations. Management's focus to improve working capital balances continued to see results; the change in non-cash working capital balances improved by \$103.0 million over the same period last year.

Investing activities

Aliant's consolidated capital expenditures for the second quarter of 2002 were \$115.1 million and are \$221.7 million for the first six months of 2002. This represents a 16.5 per cent increase over the second quarter of 2001, and an 11.2 per cent decrease over the first half of last year. Capital spending at Aliant Telecom was \$103.3 million for the second quarter of 2002, a 35.7 per cent increase over the prior year due to timing, as expenditures for the first six months of 2002 are below 2001 levels by 12.0 per cent.

It is anticipated that capital expenditures in 2002 will be between \$440 and \$465 million, compared with \$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.

Financing activities

Telecommunications

The primary external source of financing for Aliant Telecom's operations is long-term debt issued to the 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 \$350.0 million of Medium Term Notes (MTNs) in the Canadian market. On January 15, 2002 Aliant Telecom issued \$100.0

Capital expenditures (thousands of dollars)

	Quarter ended June 30			Six months ended June 30		
	2002	2001	% change	2002	2001	% change
Telecommunications	\$ 103,316	\$ 76,110	35.7	\$ 190,146	\$ 216,074	(12.0)
Information technology	3,367	1,188	183.4	4,313	5,170	(16.6)
Remote communications	8,004	7,845	2.0	22,197	8,496	161.3
Emerging business	159	13,471	(98.8)	4,742	19,878	(76.1)
Other	241	189	27.5	341	226	50.9
Total capital	\$ 115,087	\$ 98,803	16.5	\$ 221,739	\$ 249,844	(11.2)

million of 5-year notes bearing interest at 5.36 per cent under this prospectus. This financing is expected to fulfill Aliant Telecom's borrowing needs for the year 2002 and was completed early in the year to take advantage of favorable access to debt markets and low interest rates. The proceeds are being temporarily loaned to Aliant to retire commercial paper borrowings, to retire Aliant Telecom's maturing long-term debt and to fund the year's capital expenditure program as necessary. Aliant Telecom repaid \$50 million in maturing long-term debt in June 2002.

Information technology

The primary sources of financing for xwave are debt and equity investments from Aliant and bank credit facilities. xwave has in place as of June 2002, operating lines of credit totaling \$51.0 million and acquisition facilities of \$24.0 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. Aliant has guaranteed US\$33 million of Stratos' obligations under its credit facilities, a reduction of US\$117 million from the first quarter of 2002 as equity proceeds were applied to the guaranteed debt. Stratos' credit facilities contain various covenants relating to financial results, all of which are currently being met. In March 2002, Stratos and its banking syndicate agreed to amendments to certain terms under the credit facilities that will allow for a further extension of Stratos' bridge loan facility to July 2003, a modification to some of the financial covenants and a reduction of the interest rates payable on advances under the facilities. Aliant remains committed to assisting Stratos strengthen its balance sheet and, as such, invested \$31.0 million in Stratos common shares as part of Stratos' \$148 million public issue in May 2002.

Corporate financing

Aliant issued \$27.7 million in common equity during the second quarter by way of its employees' stock savings plan, dividend reinvestment and stock purchase plan and the exercise of options under its employee stock option plan. Total dividends paid by Aliant to its common shareholders in 2002 rose marginally from

2001 levels due to the increased number of shares outstanding. Aliant paid preferred share dividends of \$2.4 million for the quarter.

Aliant had no commercial paper outstanding at June 30, 2002, compared with \$4.9 million in December 31, 2001. Cash flow from operations, 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 \$675.0 million in aggregate with its bankers of which \$350.0 million is a committed facility supporting the Company's commercial paper program and \$175.0 million is a total of two committed bank lines held in reserve in support of the guarantee of Stratos' debt. The other \$150.0 million is a total of Aliant's uncommitted operating lines.

Capital structure

Aliant has further strengthened its capital structure this quarter, reducing the debt level to 45.4 per cent of capital at June 30, 2002 compared to 50.3 per cent at December 31, 2001. At June 30, 2001 debt as a percentage of capital was 52.6 per cent. The strong improvement in the Company's capital structure is attributable to the issuance of preferred and common shares, growth in cash flow from operations and selected asset sales, the proceeds of which have been used to reduce debt levels.

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 new investments. Also, Aliant has sufficient capacity in its existing and available financing facilities to provide liquidity for existing operations and planned future growth.

Based on Aliant's demonstrated financial strength, the Board has approved an increase in the quarterly dividend of 2.5 cents per common share effectively raising the annual dividend to \$1.00 per common share.

On July 18, 2002, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 1,600,000 of its outstanding common shares on the Toronto Stock Exchange, representing 1.1 per cent of the issued and

Consolidated capital structure (thousands of dollars)

	June 30, 2002		December 31, 2001	
Common equity	\$ 1,529,167	44.9%	\$ 1,410,715	42.7%
Preferred equity	172,264	5.1%	172,264	5.2%
Non-controlling interest	156,643	4.6%	61,029	1.8%
Long term-debt (including current portion)	1,429,525	42.0%	1,545,529	46.7%
Short term-debt, including bank indebtedness and interest payable	117,667	3.4%	120,778	3.6%
	\$ 3,405,266	100.0%	\$ 3,310,315	100.0%

outstanding common shares of Aliant as of that date, being 139,567,382 common shares.

Under the bid, the company would acquire, from time to time, its common shares at the market price from cash through the facilities of the Toronto Stock Exchange.

Purchases of common shares may be made during the 12-month period commencing July 22, 2002 and ending on July 21, 2003. All common shares purchased will be cancelled by Aliant Inc.

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. 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.

On May 30, 2002, the CRTC released its second price-cap decision. It is estimated to negatively impact EBITDA by \$25.0 million in 2003. During 2002, the decision is expected to negatively impact EBITDA by between \$6.0 million and \$10.0 million. The impact may change following further analysis and clarification from the CRTC on the deferral account mechanism. This new price cap regime will continue until June 2006.

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. Also, challenges being created by rapidly advancing technology, competition and economic downturn will have to be met. Aliant is ready to meet these challenges. In telecommunications there will be an enhanced focus on retaining customers, driving revenue over the existing infrastructure along with continued investment in the growth areas of broadband and wireless. xwave will capitalize on its significant expertise in telecommunications to serve small and medium sized enterprises and add depth to our business retention strategy. In Emerging Business we will focus on Interactive Knowledge to grow a business with enormous potential. From the foundation put in place in 2001 and the positive results experienced so far in 2002, Aliant is in a strong position to weather this period of transition and to continue its leadership position in the industry.

Statements

Consolidated balance sheets (unaudited)

<i>(thousands of dollars)</i>	As at June 30, 2002	As at December 31, 2001 <i>(as restated, note 2)</i>
ASSETS		
Current assets		
Cash and short-term investments	\$ 197,788	\$ 131,558
Accounts receivable <i>(note 3)</i>	485,634	482,454
Inventory	35,623	36,046
Prepayments	63,059	34,947
Future income tax asset	—	17,500
	782,104	702,505
Capital assets <i>(note 4)</i>	2,352,286	2,346,599
Other assets		
Long-term investments <i>(note 5)</i>	46,995	65,501
Deferred charges	112,923	121,474
Future income tax asset	37,444	9,881
Goodwill <i>(note 6)</i>	403,841	418,286
	601,203	615,142
Total assets	\$ 3,735,593	\$ 3,664,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable and bank advances <i>(note 7)</i>	\$ 97,106	\$ 103,156
Payables and accruals <i>(note 8)</i>	289,558	311,915
Future income tax liability	4,009	—
Long-term debt due within one year <i>(note 9)</i>	129,602	84,788
	520,275	499,859
Long-term debt <i>(note 9)</i>	1,299,923	1,460,741
Accrued benefit obligation	43,591	43,758
Deferred credits	13,730	15,880
	1,877,519	2,020,238
Non-controlling interest <i>(note 10)</i>	156,643	61,029
Shareholders' equity		
Capital stock <i>(note 11)</i>	1,242,256	1,186,680
Contributed surplus	69,320	69,320
Retained earnings	389,855	326,979
	1,701,431	1,582,979
Total liabilities and shareholders' equity	\$ 3,735,593	\$ 3,664,246

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 (unaudited)

<i>(thousands of dollars except per share amounts)</i>	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
Operating revenues <i>(note 12)</i>	\$ 670,109	\$ 658,847 <i>(as restated, note 2)</i>	\$1,315,756	\$1,297,206 <i>(as restated, note 2)</i>
Expenses				
Cost of operating revenues	178,200	167,407	369,950	345,614
Operating expenses	244,842	240,913	470,863	489,481
Depreciation and amortization	106,372	107,997	214,223	216,183
	529,414	516,317	1,055,036	1,051,278
Operating income	140,695	142,530	260,720	245,928
Other income (expenses)				
Gain (loss) on foreign exchange <i>(note 2)</i>	24,402	22,612	23,944	(5,188)
Other income (expenses) <i>(note 13)</i>	12,013	(5,289)	10,538	(3,748)
	36,415	17,323	34,482	(8,936)
Interest charges				
Interest on long-term debt	32,523	39,425	65,866	77,842
Other interest	(88)	2,508	314	6,253
	32,435	41,933	66,180	84,095
Income before underlisted items	144,675	117,920	229,022	152,897
Income taxes <i>(note 14)</i>	46,733	50,063	71,947	87,443
Income before non-controlling interest	97,942	67,857	157,075	65,454
Non-controlling interest share of (income) losses	(13,440)	(6,482)	(19,120)	10,278
Net income	\$ 84,502	\$ 61,375	\$ 137,955	\$ 75,732
Net income	\$ 84,502	\$ 61,375	\$ 137,955	\$ 75,732
Add back: amortization of goodwill	—	6,014	—	12,168
Net income before amortization of goodwill	\$ 84,502	\$ 67,389	\$ 137,955	\$ 87,900
Earnings per common share <i>(note 15)</i>				
Basic	\$ 0.59	\$ 0.44	\$ 0.96	\$ 0.55
Add back: amortization of goodwill	—	0.05	—	0.09
Adjusted basic	\$ 0.59	\$ 0.49	\$ 0.96	\$ 0.64
Diluted	\$ 0.59	\$ 0.44	\$ 0.96	\$ 0.55
Add back: amortization of goodwill	—	0.05	—	0.09
Adjusted diluted	\$ 0.59	\$ 0.49	\$ 0.96	\$ 0.64

See accompanying notes to the consolidated financial statements

Consolidated statements of retained earnings (unaudited)

(thousands of dollars)	Six months ended June 30	
	2002	2001
Balance, beginning of period as previously reported	\$ 343,807	\$ 351,482
Change in accounting policy for foreign currency translation <i>(note 2)</i>	(16,828)	—
	326,979	351,482
Change in accounting policy for stock-based compensation <i>(note 2)</i>	(369)	—
Goodwill impairment provision <i>(note 2)</i>	(8,622)	—
Balance, beginning of period as restated	317,988	351,482
Net income	137,955	75,732
Preferred share dividends	(4,769)	(1,851)
Common share dividends	(61,319)	(60,455)
Balance, end of period	\$ 389,855	\$ 364,908

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows (unaudited)

(thousands of dollars)	Three months ended June 30		Six months ended June 30	
	2002	2001	2002	2001
		<i>(as restated, note 2)</i>		<i>(as restated, note 2)</i>
Cash and cash equivalents from (used in) operations				
Net income	\$ 84,502	\$ 61,375	\$ 137,955	\$ 75,732
Add (deduct) non-cash items				
Depreciation and amortization	106,322	108,659	214,119	217,064
Loss (gain) on foreign exchange	(24,402)	(22,612)	(23,944)	5,188
Future income taxes	12,945	4,425	(6,055)	9,933
Other non-cash items	(12,097)	(8,996)	(9,690)	(13,080)
Share in earnings of equity accounted investments	1,560	2,169	1,946	2,912
Non-controlling interest share of income (losses)	13,440	6,482	19,120	(10,278)
	182,270	151,502	333,451	287,471
Change in non-cash working capital balances related to operations	(51,560)	(40,204)	(48,015)	(151,032)
	130,710	111,298	285,436	136,439
Cash and cash equivalents from (used in) financing				
Repurchase of accounts receivable	(5,000)	—	(15,000)	—
Net proceeds (repayments) of notes payable and bank advances	23,711	(230,042)	(6,050)	(140,811)
Proceeds from long-term debt	—	154,000	100,000	380,670
Repayments of long-term debt	(191,254)	(90,179)	(192,060)	(294,762)
Increase (decrease) in non-controlling interest	109,418	(1,797)	109,418	1,995
Proceeds from issue of preferred shares <i>(note 11)</i>	—	172,456	—	172,456
Proceeds from issue of common shares <i>(note 11)</i>	9,164	14,650	18,499	21,100
Preferred share dividends	(2,385)	(1,851)	(4,769)	(1,851)
Common share dividends	(11,744)	(11,818)	(24,241)	(39,471)
	(68,090)	5,419	(14,203)	99,326
Cash and cash equivalents from (used in) investing				
Capital expenditures	(115,087)	(98,803)	(221,739)	(249,844)
Proceeds on sale of investments	7,704	19,658	8,676	21,591
Investments	(274)	333	(525)	5,339
Increase (decrease) in other deferred charges	(2,039)	(16,617)	8,585	(32,209)
Purchase of subsidiaries' net assets and goodwill	—	(1,327)	—	(2,539)
	(109,696)	(96,756)	(205,003)	(257,662)
Change in cash and short-term investments	(47,076)	19,961	66,230	(21,897)
Cash and short-term investments, beginning of period	244,864	38,634	131,558	80,492
Cash and short-term investments, end of period	\$ 197,788	\$ 58,595	\$ 197,788	\$ 58,595
Supplementary disclosure				
Interest paid	\$ 42,259	\$ 44,271	\$ 64,033	\$ 80,768
Income taxes paid	\$ 40,471	\$ 36,515	\$ 89,056	\$ 84,136

See accompanying notes to the consolidated financial statements

Statement notes

Notes to the consolidated financial statements
June 30, 2002 (unaudited)

NOTE 1

Interim financial statements

The accounting policies and methods followed for interim reporting purposes are consistent with those in effect for the most recent annual financial statement for the year ended December 31, 2001, except as explained

below in accounting changes. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001.

NOTE 2

Summary of significant accounting policies

Consolidated financial statements

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

At June 30, 2002, 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, 515713 N.B. 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 Canadian 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"). On May 30, 2002 the CRTC released its Decision 2002-34, which includes prescribed new rules effective for a four year period to determine the rates charged for certain local telephone services. Aliant Telecom Inc. will file these rates with regulators in August 2002. The approved rates will be retroactive to June 1, 2002.

Cash and short-term investments

Cash and short-term investments consist of cash on hand and balances with banks, and investments in money market instruments with original maturity 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.

Transfer of receivables

The Company entered into a Purchase and Sale Agreement under which it sells its interest in a pool of present and future eligible accounts receivable to a securitization trust that issues 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.

The accounts receivable are transferred on a fully-serviced basis. As a result, the Company recognizes a servicing liability on the date of the transfer and amortizes this liability to income over the expected life of the transferred accounts receivable.

NOTE 2

Summary of significant accounting policies (continued)

Inventory

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

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.

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.

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.

Long-term investments

The Company accounts for its investments in affiliated companies over which it has significant influence using 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.

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.

Deferred charges

Deferred charges include debt issue costs, which are amortized on a straight-line basis over the term of the related debt. Also included in deferred charges are cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts, as well as Internet commissions, which are amortized over a defined customer relationship period.

Goodwill

Goodwill represents the excess at the dates of acquisition of the costs over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed. The Company annually reviews goodwill of all its reporting units to ensure that its fair value remains

greater than, or equal to, carrying value. Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined.

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 post employment benefits:

- The cost of pensions and other post employment benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- 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.
- 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

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

Stock-based compensation plan

The Company has a stock-based compensation plan for executives and certain senior managers, which is described in note 16. No compensation expense is recognized when stock options are issued. Consideration paid on

NOTE 2

Summary of significant accounting policies (continued)

exercise of stock options is credited to share capital. Compensation expense is recognized for the Company's contributions to the Employee Share Purchase Plan.

A subsidiary of the Company has a stock-based compensation plan specific to its own shares. A participant in this plan may elect to cash settle the options in lieu of exercising them. The variable accounting method is used to record the compensation expense on these options. Under this method, these awards result in the subsidiary recognizing a liability. Changes in the amount of this liability due to stock price changes are recorded as compensation expense.

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 = Canadian\$1.52 at June 30, 2002 (US\$1.00 = Canadian\$1.59 at December 31, 2001) 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 monetary items are included in income.

Accounting changes

Effective January 1, 2002, the Company adopted the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) with regard to Foreign Currency Translation, Stock-Based Compensation and Other Stock-Based Payments and Goodwill and Other Intangibles.

(a) Foreign currency translation

All exchange gains and losses arising from the translation of foreign currency monetary items are now included in income. Previously, unrealized foreign exchange gains or losses in relation to long-term debt balances were deferred and amortized over the remaining term of the related debt.

As required under the new standards, this change was adopted retroactively with restatement of prior period balances. The following table outlines the impact of these changes:

<i>(thousands of dollars)</i>	Six months ended June 30, 2002	Six months ended June 30, 2001	Year ended December 31, 2001
Consolidated statements of income			
Increase (decrease) to:			
Loss (gain) on foreign exchange	\$ (23,944)	\$ 5,188	\$ 30,938
Depreciation and amortization	—	(1,750)	(4,416)
Future income taxes	—	403	1,016
Non-controlling interest	11,196	(1,494)	(10,710)
Net income	\$ 12,748	\$ (2,347)	\$ (16,828)
Consolidated balance sheets			
Increase (decrease) to:			
Deferred charges	\$ —	\$ (3,438)	\$ (26,522)
Future income tax liability	\$ —	\$ 403	\$ 1,016
Non-controlling interest	\$ 11,196	\$ (1,494)	\$ (10,710)
Retained earnings	\$ 12,748	\$ (2,347)	\$ (16,828)

Basic and diluted earnings per share for the six months and three months ended June 30, 2001 decreased by \$0.02 and increased by \$0.10 respectively (December 31, 2001 – \$0.12) from previously reported amounts.

(b) Stock-based compensation and other stock-based payments

The Company continues to record no compensation expense upon issuance of stock options under its own stock option plan in accordance with CICA accounting standards. However, as required by the new standards, the Company is disclosing the pro-forma net income

and pro-forma earnings per share using the fair market value method of accounting for stock-based compensation awards. This pro-forma information is presented in note 15.

Under a subsidiary company's employee stock option plan, the requirements of the new standards have been adopted retroactively. As a result of this change, opening retained earnings was decreased by \$0.4 million and accounts payable and accrued liabilities were increased by \$0.4 million. During the period ended June 30, 2002, there was an additional compensation expense recorded in the amount of \$0.1 million.

NOTE 2

Summary of significant accounting policies (continued)

(c) Goodwill and other intangibles

Previously, recorded goodwill was amortized on a straightline basis over the estimated life of ten to twenty years. In addition, the Company would periodically evaluate 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 was charged to earnings in the year such impairment was determined.

Under the new accounting standards, goodwill and intangibles with an indefinite life are no longer amortized. Entities were required to perform an impairment test as of January 1, 2002 to ascertain whether they should recognize a decline in the carrying value of any recorded goodwill balances. An impairment provision in the amount of \$8.6 million was recognized during the period as a result of the impairment test and was charged to opening retained earnings. This impairment test is required to be re-performed on at least an annual basis and any subsequent impairment provisions would be charged to income at that date.

NOTE 3

Transfer of receivables

Under an agreement dated December 13, 2001, the Company sells certain accounts receivable to a securitization trust. The excess of amounts transferred over the cash proceeds 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.

As at June 30, 2002, the Company had sold \$135 million (December 31, 2001 – \$150 million) of accounts receivable and transferred \$165.9 million (December 31, 2001 – \$176.8 million) of receivables to the trust.

NOTE 4

Capital assets

(thousands of dollars)

	June 30, 2002		
	Cost	Accumulated depreciation	Net book value
Land	\$ 16,543	\$ —	\$ 16,543
Buildings	332,311	160,606	171,705
Plant	4,138,847	2,513,923	1,624,924
Machinery and equipment	870,694	422,360	448,334
Plant under construction	77,397	—	77,397
Materials and supplies	13,383	—	13,383
Total capital assets	\$ 5,449,175	\$ 3,096,889	\$ 2,352,286

(thousands of dollars)

	December 31, 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

NOTE 5

Long-term investments

<i>(thousands of dollars)</i>	June 30, 2002	December 31, 2001
Investments subject to significant influence	\$ 10,442	\$ 23,534
Portfolio investments	36,553	41,967
	\$ 46,995	\$ 65,501

NOTE 6

Goodwill

<i>(thousands of dollars)</i>	June 30, 2002	December 31, 2001
Goodwill, at cost	\$ 455,568	\$ 461,391
Goodwill impairment provision <i>(note 2)</i>	(8,622)	—
Accumulated amortization	(43,105)	(43,105)
	\$ 403,841	\$ 418,286

NOTE 7

Notes payable and bank advances

At June 30, 2002 the Company has \$nil (December 31, 2001 – \$4.9 million) outstanding under its commercial paper program. The Company has lines of credit available of \$675 million (December 31, 2001 – \$725 million). These lines consist of \$350 million (December 31, 2001 – \$350 million) in committed

lines supporting the Company's commercial paper program, \$175 million (December 31, 2001 – \$225 million) in committed lines supporting a Stratos loan guarantee and \$150 million (December 31, 2001 – \$150 million) in uncommitted operating lines.

NOTE 8

Restructuring charge

During 2001, the Company commenced a significant organizational restructuring which resulted in a charge of \$111.2 million against earnings. The action taken in 2001 to effect the restructuring was an acceleration of long term plans for continued efforts to realize cost savings and efficiencies resulting from the consolidation and integration of its operations.

Costs associated with workforce reduction and operational integration continue to be charged against the restructuring provision recorded at December 31,

2001. These costs include severance, pension costs and benefits as well as costs to consolidate systems and services, downsize business units, terminate contracts and streamline management and administration functions.

As at June 30, 2002, the balance of this restructuring provision included in payables and accruals totaled \$52.7 million (December 31, 2001 – \$69.0 million). The remaining provision will be substantially drawn down during 2002, as the consolidation and integration of its operations are completed.

NOTE 9

Long-term debt

<i>(thousands of dollars)</i>	Interest rate	Maturity	June 30, 2002	December 31, 2001
Telecommunications				
Notes	5.36% – 6.80%	2006 – 2011	\$ 600,000	\$ 500,000
Bonds	8.76% – 12.25%	2006 – 2019	197,500	197,500
Debentures	6.40% – 11.13%	2002 – 2025	265,000	315,000
Other			1,997	2,009
			1,064,497	1,014,509
Present value of obligations under capital leases			1,412	2,092
Total – Telecommunications			1,065,909	1,016,601
Information technology				
Mortgages	Prime plus 1.00% – 1.50%	2002	2,174	1,879
Present value of obligations under capital leases			65	330
Total - Information technology			2,239	2,209
Remote communications				
Term debt	LIBOR + 3.00%	2005	303,240	318,560
Acquisition facility	LIBOR + 3.00%	2003	50,035	199,100
Other			2,503	2,815
Total – Remote communications			355,778	520,475
Emerging business				
Mortgages	6.89%	2004	1,463	1,501
Bank loans	7.02% – Prime plus 5.00%	2004	2,671	3,239
Other	0% – Prime plus 4.00%	2004 – 2007	1,075	1,101
Present value of obligations under capital leases			390	403
Total - Emerging business			5,599	6,244
Total long-term debt			1,429,525	1,545,529
Less: Portion due within one year			129,602	84,788
			\$ 1,299,923	\$ 1,460,741

During the period, the Company issued \$100 million of 5-year Medium Term Notes pursuant to its base shelf prospectus dated April 27, 2001. These notes carry a coupon rate of 5.36 per cent payable semi-annually and mature on January 15, 2007.

NOTE 10

Non-controlling interest

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

<i>(thousands of dollars)</i>	June 30, 2002	December 31, 2001
Stratos Global Corporation	\$ 147,666	\$ 52,657
TechKnowledge Inc.	769	835
Atlantic Mobility Products Ltd.	1,579	1,165
Prexar LLC	—	572
Sablecom	1,915	1,834
Transtech Engineering Inc.	40	49
AMI Offshore Inc.	4,674	3,917
	\$ 156,643	\$ 61,029

NOTE 11

Capital stock

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares.

Issued

(thousands of dollars)	June 30, 2002		December 31, 2001	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares without par value	139,563,422	1,069,992	137,526,147	1,014,416
		\$ 1,242,256		\$ 1,186,680

The Company issued the following common shares:

(thousands of dollars)	June 30, 2002		December 31, 2001	
	Number of shares	Value	Number of shares	Value
Stock option plan (note 16)	331,186	\$ 5,441	336,488	\$ 5,072
Common shareholder dividend				
reinvestment and stock purchase plan	1,264,550	37,130	1,836,679	54,353
Employees' stock savings plan (note 16)	441,539	13,005	1,015,997	32,390
	2,037,275	\$ 55,576	3,189,164	\$ 91,815

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.

During the period, the Company issued shares in relation to the common shareholder dividend reinvestment and stock purchase plan as well as the employees' stock savings plan in lieu of paying cash dividend in the amount of \$37.1 million (year ended December 31, 2001 – \$57.8 million).

NOTE 12

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 center 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.; and (2) supply and service of the east coast oil and gas industry as conducted by AMI Offshore Inc.

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 2. 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.

NOTE 12

Segmented information *(continued)*

	Three months						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$ 448,969	\$ 66,872	\$ 128,749	\$ 22,703	\$ 2,816	\$ —	\$ 670,109
Intersegment revenue	4,639	36,783	—	908	—	(42,330)	—
Operating revenue	453,608	103,655	128,749	23,611	2,816	(42,330)	670,109
Operating expenses	233,319	94,820	105,605	23,680	6,531	(40,913)	423,042
Depreciation and amortization	90,135	2,945	10,176	2,893	223	—	106,372
Gain (loss) on foreign exchange	—	—	24,402	—	—	—	24,402
Other income (expenses)	530	43	193	(23,396)	37,563	(2,920)	12,013
Interest expense	22,033	384	11,165	372	1,401	(2,920)	32,435
Income taxes	43,673	2,519	1,017	(4,793)	4,956	(639)	46,733
Non-controlling interest	(223)	(6)	(12,895)	(316)	—	—	(13,440)
Net income (loss)	\$ 64,755	\$ 3,024	\$ 12,486	\$ (22,253)	\$ 27,268	\$ (778)	\$ 84,502
Total assets	\$2,689,472	\$ 246,379	\$ 792,991	\$ 129,891	\$1,915,586	\$ (2,038,726)	\$3,735,593
Capital expenditures	\$ 103,316	\$ 3,367	\$ 8,004	\$ 159	\$ 241	\$ —	\$ 115,087

	Three months <i>(restated, note 2)</i>						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$ 469,427	\$ 53,438	\$ 108,918	\$ 26,571	\$ 493	\$ —	\$ 658,847
Intersegment revenue	4,563	37,754	—	9,215	—	(51,532)	—
Operating revenue	473,990	91,192	108,918	35,786	493	(51,532)	658,847
Operating expenses	248,268	82,166	81,431	39,514	6,444	(49,503)	408,320
Depreciation and amortization	87,830	3,613	12,890	1,676	81	1,907	107,997
Gain (loss) on foreign exchange	—	—	22,612	—	—	—	22,612
Other income (expenses)	176	106	(3,331)	(2,172)	2,822	(2,890)	(5,289)
Interest expense	26,127	631	14,787	580	2,698	(2,890)	41,933
Income taxes	51,318	2,595	1,987	(2,511)	(2,411)	(915)	50,063
Non-controlling interest	(2)	75	(6,652)	97	—	—	(6,482)
Net income (loss)	\$ 60,621	\$ 2,368	\$ 10,452	\$ (5,548)	\$ (3,497)	\$ (3,021)	\$ 61,375
Total assets	\$2,730,689	\$ 270,383	\$ 791,242	\$ 161,325	\$1,615,973	\$ (1,786,697)	\$ 3,782,915
Capital expenditures	\$ 76,110	\$ 1,188	\$ 7,845	\$ 13,471	\$ 189	\$ —	\$ 98,803

NOTE 12

Segmented information *(continued)*

	Year to date						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$ 858,225	\$ 150,374	\$ 255,289	\$ 48,600	\$ 3,268	\$ —	\$ 1,315,756
Intersegment revenue	9,667	74,807	—	2,043	—	(86,517)	—
Operating revenue	867,892	225,181	255,289	50,643	3,268	(86,517)	1,315,756
Operating expenses	450,673	207,766	200,732	51,316	13,576	(83,250)	840,813
Depreciation and amortization	181,462	5,800	19,933	6,487	541	—	214,223
Gain (loss) on foreign exchange	—	—	23,944	—	—	—	23,944
Other income (expenses)	(313)	72	—	(23,401)	39,728	(5,548)	10,538
Interest expense	43,721	757	23,604	674	2,972	(5,548)	66,180
Income taxes	75,418	5,003	(3,462)	(6,557)	3,019	(1,474)	71,947
Non-controlling interest	(416)	27	(17,968)	(763)	—	—	(19,120)
Net income (loss)	\$ 115,889	\$ 5,954	\$ 20,458	\$ (25,441)	\$ 22,888	\$ (1,793)	\$ 137,955
Total assets	\$ 2,689,472	\$ 246,379	\$ 792,991	\$ 129,891	\$ 1,915,586	\$ (2,038,726)	\$ 3,735,593
Capital expenditures	\$ 190,146	\$ 4,313	\$ 22,197	\$ 4,742	\$ 341	\$ —	\$ 221,739

	Year to date <i>(restated, note 2)</i>						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$ 903,652	\$ 128,162	\$ 209,559	\$ 55,247	\$ 586	\$ —	\$ 1,297,206
Intersegment revenue	8,630	72,744	—	18,745	—	(100,119)	—
Operating revenue	912,282	200,906	209,559	73,992	586	(100,119)	1,297,206
Operating expenses	498,260	181,260	164,191	75,191	12,400	(96,207)	835,095
Depreciation and amortization	175,725	7,133	26,211	3,144	155	3,815	216,183
Gain (loss) on foreign exchange	—	—	(5,188)	—	—	—	(5,188)
Other income (expenses)	1,268	133	(6,814)	1,957	5,789	(6,081)	(3,748)
Interest expense	50,400	1,096	30,213	998	7,469	(6,081)	84,095
Income taxes	86,634	5,949	3,928	(1,252)	(6,051)	(1,765)	87,443
Non-controlling interest	(291)	91	10,702	(224)	—	—	(10,278)
Net income (loss)	\$ 102,240	\$ 5,692	\$ (16,284)	\$ (2,356)	\$ (7,598)	\$ (5,962)	\$ 75,732
Total assets	\$ 2,730,689	\$ 270,383	\$ 791,242	\$ 161,325	\$ 1,615,973	\$ (1,786,697)	\$ 3,782,915
Capital expenditures	\$ 216,074	\$ 5,170	\$ 8,496	\$ 19,878	\$ 226	\$ —	\$ 249,844

NOTE 12**Segmented information** *(continued)***Revenue by product and service**

<i>For the period ended June 30 (thousands of dollars)</i>	Three months		Year to date	
	2002	2001	2002	2001
Telecommunications				
Local	\$ 193,514	\$ 218,358	\$ 383,473	\$ 430,122
Long distance	97,768	98,697	195,003	200,206
Wireless	67,404	60,585	128,628	115,497
Other telecommunications	90,283	91,787	151,121	157,827
	448,969	469,427	858,225	903,652
Information technology				
Products	35,276	21,661	90,180	59,539
Services	31,596	31,777	60,194	68,623
	66,872	53,438	150,374	128,162
Remote communications				
Mobile satellite services	93,590	71,863	184,196	139,606
Broadband services	35,159	37,055	71,093	69,953
	128,749	108,918	255,289	209,559
Emerging business	22,703	26,571	48,600	55,247
Other	2,816	493	3,268	586
	\$ 670,109	\$ 658,847	\$1,315,756	\$1,297,206

NOTE 13**Other income (expenses)**

The company recorded a gain on reduction of ownership in one of its subsidiaries in the amount of \$32.5 million (\$25.9 million net of income taxes). In addition, certain portfolio investments, investments

subject to significant influence and assets of a subsidiary company were written down to their estimated market value by \$5.6 million, \$10.6 million and \$5.2 million respectively (\$18.1 million net of income taxes).

NOTE 14**Income taxes**

The Company recognized \$6.8 million of tax benefits relating to a portion of the tax losses carry forward of one of its subsidiaries. The Company has developed

and if necessary, will implement before the expiry of the losses, a tax strategy that would result in the realization of the tax benefits recognized.

NOTE 15
Earnings per common share

<i>For the period ended June 30 (thousands of dollars except per share amounts)</i>	Three months		Year to date	
	2002	2001	2002	2001
Net income applicable to common shares:				
Net income	\$ 84,502	\$ 61,375	\$ 137,955	\$ 75,732
Preferred share dividends	(2,385)	(1,851)	(4,769)	(1,851)
	\$ 82,117	\$ 59,524	\$ 133,186	\$ 73,881
Basic				
Average number of common shares outstanding	138,891	135,111	138,355	134,859
Per share amount	\$ 0.59	\$ 0.44	\$ 0.96	\$ 0.55
Diluted				
Average number of common shares outstanding	138,891	135,111	138,355	134,859
Impact of outstanding stock options	69	633	79	633
	138,960	135,744	138,434	135,492
Per share amount	\$ 0.59	\$ 0.44	\$ 0.96	\$ 0.55

The table below presents pro-forma net income, earnings per share and diluted earnings per share using the fair market value method of accounting for stock-based compensation. The pro-forma adjustments

presented below pertain to new awards granted since adoption of the new stock-based compensation standards on January 1, 2002 as described in note 2.

<i>For the period ended June 30, 2002 (thousands of dollars except per share amounts)</i>	Three months	Year to date
Pro-forma net income applicable to common shares:		
Net income	\$ 84,502	\$ 137,955
Preferred share dividends	(2,385)	(4,769)
Pro-forma adjustments	(1,030)	(1,328)
Pro-forma net income applicable to common shares	\$ 81,087	\$ 131,858
Basic		
Average number of common shares outstanding	138,891	138,355
Pro-forma earnings per share amount	\$ 0.58	\$ 0.95
Diluted		
Average number of common shares outstanding	138,891	138,355
Impact of outstanding stock options	69	79
	138,960	138,434
Pro-forma earnings per share amount	\$ 0.58	\$ 0.95

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	June 30, 2002
Dividend yield	3.10%
Expected volatility	25.3%
Risk-free interest rate	5.08%
Expected lives	7.8 years

NOTE 16

Stock-based compensation plans

At June 30, 2002 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 7,361,746 shares of common stock, of which 2,808,813 options for the same number of common shares were outstanding at the end of the period. 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 June 30, 2002 and December 31, 2001, and changes during the periods ended on those dates is presented below:

	June 30, 2002		December 31, 2001	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of period	2,558,275	\$ 26.67	2,478,674	\$ 23.26
Granted	613,049	29.08	416,089	35.34
Forfeited	31,325	21.81	—	—
Exercised	331,186	16.43	336,488	15.07
Options outstanding at end of period	2,808,813	\$ 28.54	2,558,275	\$ 26.67
Options exercisable at end of period	1,802,555	\$ 29.36	1,614,550	\$ 21.53

The following table summarizes information about stock options outstanding at June 30, 2002:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2002	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable at June 30, 2002	Weighted-average exercise price
\$10.625 to \$15.718	257,864	4.1	\$13.909	257,864	\$13.909
\$17.557 to \$20.079	218,863	5.6	\$19.901	218,863	\$19.901
\$21.768 to \$25.552	402,328	6.6	\$22.785	370,338	\$22.756
\$28.500 to \$34.900	1,432,832	8.5	\$31.715	706,348	\$33.331
\$35.250 to \$38.100	496,926	8.6	\$35.422	249,142	\$35.417
	2,808,813			1,802,555	

The Company expects that approximately 95 per cent of the nonvested awards at June 30, 2002 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 441,539

shares to employees from January 1 to June 30, 2002.

Employees' stock option plan of a subsidiary company

A subsidiary of the Company has a stock option plan specific to its own shares. Under this stock option plan, the subsidiary may grant options to plan members at the discretion of the Board of Directors. The exercise price of each option equals the fair market value price of the Company's stock on the date of grant and an option's maximum term is ten years. Options become fully vested upon the date they are granted under the plan. A participant in this plan may elect to cash settle the options in lieu of exercising them.

As at June 30, 2002, there were 565,414 (December 31, 2001 – 252,015) options outstanding and exercisable. The weighted average remaining contractual life of the options is 8.6 years (December 31, 2001 – 6.6 years) and the weighted average exercise price is \$8.57 (December 31, 2001 – \$3.79).

NOTE 17

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 and the subsidiaries are now awaiting a final decision on damages from the arbitrator. 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 18

Subsequent event

On July 18, 2002, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 1,600,000 of its outstanding common shares on the Toronto Stock Exchange, representing 1.1 per cent of the issued and outstanding common shares of Aliant as of that date, being 139,567,382 common shares.

Under the bid, the company would acquire, from time to time, its common shares at the market price from cash through the facilities of the Toronto Stock Exchange.

Purchases of common shares may be made during the 12-month period commencing July 22, 2002 and ending on July 21, 2003. All common shares purchased will be cancelled by Aliant Inc.

NOTE 19

Comparative figures

The comparative financial information has been restated to conform to the presentation adopted for 2002.

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
Fax: 1.877.498.2464
Email: investor.relations@aliant.ca

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
Email: inquiries@cibcmellon.com
Web site: www.cibcmellon.com

Where we're listed

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

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. The Company pays all administration costs. 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.

Common share price range*

	April	May	June
High	\$ 30.01	\$ 31.25	\$ 31.56
Low	\$ 25.50	\$ 28.41	\$ 27.36
Close	\$ 29.50	\$ 31.25	\$ 27.96

* Toronto Stock Exchange

Performance numbers

(as at June 30)

	2002	2001	% change
Network access services – landlines	1,526,753	1,534,025	(0.5)
Network access services – cellular	512,635	428,299	19.7
Internet subscribers – high speed	86,362	55,426	55.8
Internet subscribers – dial-up	194,648	185,669	4.8
Long distance conversation minutes	889,156,000	872,343,000	1.9
Employees	10,559	10,469	0.9
Quarter-end stock price	\$ 27.96	\$ 34.35	(18.6)

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

Visit our Web site to listen to a recorded analysts' conference call discussing our second quarter results.

