

**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 statements for the year ended December 31, 2002, except as explained in Note 2 under accounting changes. These unaudited interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2002.

**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 and its proportionate share of jointly controlled entities.

At March 31, 2003, the principal subsidiaries of the Company include: Aliant Telecom Inc., Innovatia Inc., Aliant Information Technology Inc., Xwave Solutions Inc., Aliant Horizons Inc., Stratos Global Corporation, AMI Offshore Inc., Prexar LLC, and Aliant Energy Services Inc.

*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 and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. 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 ("price cap decision"), which includes prescribed new rules effective for a four year period to determine the rates charged for certain telecommunications services. In 2003, the expected impact of the decision on the Company may change following further analysis and clarification from the CRTC on the deferral account mechanism as discussed in Note 15.

*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 fair value.

*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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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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.

*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 substantively enacted income tax rates on future income tax assets and liabilities is included in income in the period that the change occurs.

*Capital investments*

Capital investments 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 and towers	Straight line	10-40 years
Telecommunications facilities and equipment	Straight line	4-40 years
Application software and other equipment	Straight line	3-15 years

Depreciation is not recorded on capital under construction that is not yet operational.

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

*Long-term investments*

The Company accounts for its investments in affiliated companies over which it has significant influence using the equity method 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 at cost. Declines in market value below cost are recognized when such declines are considered to be other than temporary.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Deferred charges*

Deferred charges include debt issue costs, which are amortized on a straight-line basis over the term of the related debt, cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts, as well as Internet commissions, which are amortized over a defined customer relationship period. Also included in deferred charges is the Company's retained interest in accounts receivable transferred to a securitization trust.

*Goodwill*

Goodwill represents the excess, at the dates of acquisition, of the costs over the fair values of the net amounts assigned to identifiable 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 income in the period such impairment is determined.

*Derivative financial instruments*

Derivative financial instruments are used by the Company in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

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

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

The Company has entered into interest rate swap and swaption agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. Amounts payable or receivable under interest rate swap agreements are recognized as adjustments to interest expense. In addition, premiums received or paid, if any, under interest rate swaption agreements are amortized as an adjustment to interest expense over the period from receipt, or payment, of the premium income to maturity of the underlying debt obligation.

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Post employment benefits*

The Company and its subsidiaries provide certain pension plans and other non-pension post employment benefits to qualified employees. These include contributory defined contribution pension plans, non-contributory defined benefit final average pension plans and other retirement benefits such as life insurance and health care plans.

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:

- (a) The cost of pensions and other post employment benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- (b) For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value.
- (c) 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.
- (d) The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees being 16 years at March 31, 2003 (December 31, 2002 – 16 years).
- (e) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.
- (f) A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other non-pension post employment benefits.

Defined contribution plan costs are recognized as employees render services during the year.

*Earnings per common share*

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

*Stock-based compensation plan*

The Company has a stock-based compensation plan for executives and certain senior managers, which is described in Note 14. For stock-based awards granted after January 1, 2003, compensation expense is recognized when stock options are issued. Compensation expense is also recognized for the Company's contributions to the Employees' Stock Savings 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 company records a liability and compensation expense in connection with these awards based on their

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

intrinsic value at the date of grant. Subsequent changes in the amount of the liability due to stock price changes are recorded as compensation expense.

*Foreign currency translation*

Effective July 1, 2002, the economic facts and circumstances surrounding the Company's foreign operations changed such that operations that were previously classified as integrated are now reported as self-sustaining. This change is the result of a significant reduction in the Company's financial guarantee provided to the foreign operation's lender along with strong evidence in the first two quarters of 2002 of the foreign operations ability to meet its debt servicing obligation with the lender thus limiting the Company's exposure related to the remaining guarantee. As a result, the translation method used has changed from the temporal to the current rate method.

Assets and liabilities of the Company's self-sustaining foreign operations are translated using the current rate method at exchange rates prevailing at the balance sheet date, which was US \$1.00 = Canadian \$1.47 at March 31, 2003 (US \$1.00 = Canadian \$1.58 at December 31, 2002). Resulting unrealized gains or losses are deferred and included in shareholders' equity as a cumulative translation adjustment. The change in the cumulative translation adjustment account reflects changes due to fluctuations in exchange rates during the period. Revenues and expenses are translated at the average exchange rate prevailing during the period.

*Accounting changes*

As permitted under the new CICA accounting standard for Stock-Based Compensation and Other Stock-Based Payments, the Company does not record compensation expense upon issuance of stock options to employees under its own stock option plan for awards granted prior to January 1, 2003. However, as required by the new standard, 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. The pro-forma information is presented in Note 13. In addition, a subsidiary of the Company follows this method of accounting.

For stock-based compensation awards granted by the Company after January 1, 2003, the Company has changed its accounting policy to record compensation expense upon issuance of stock options to employees calculated using the fair market value method.

**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 deferred charges. 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

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**NOTE 3. TRANSFER OF RECEIVABLES (Continued)**

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 March 31, 2003, the Company had sold \$135.0 million (December 31, 2002 - \$135.0 million) of accounts receivable and transferred \$164.9 million (December 31, 2002 - \$164.9 million) of receivables to the trust. Included in deferred charges is the Company's retained interest of \$29.9 million (December 31, 2002 - \$29.9 million).

During the three months ended March 31, 2003, the Company recognized a pre-tax loss of approximately \$1.1 million (2002 - \$3.7 million) on the transfer of receivables.

**NOTE 4. CAPITAL INVESTMENTS**

<b>March 31, 2003</b>			
<i>(thousands of dollars)</i>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land	\$ 15,604	\$ -	\$ 15,604
Buildings and towers	337,952	164,410	173,542
Telecommunications facilities and other equipment	4,544,592	2,753,380	1,791,212
Application software and other equipment	667,214	414,308	252,906
Capital under construction	34,526	-	34,526
Materials and supplies	9,318	-	9,318
	<b>\$ 5,609,206</b>	<b>\$ 3,332,098</b>	<b>\$ 2,277,108</b>

<b>December 31, 2002</b>			
<i>(thousands of dollars)</i>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land	\$ 15,926	\$ -	\$ 15,926
Buildings and towers	336,703	162,445	174,258
Telecommunications facilities and other equipment	4,538,086	2,701,950	1,836,136
Application software and other equipment	664,709	393,614	271,095
Capital under construction	22,690	-	22,690
Materials and supplies	9,254	-	9,254
	<b>\$ 5,587,368</b>	<b>\$ 3,258,009</b>	<b>\$ 2,329,359</b>

**NOTE 5. LONG-TERM INVESTMENTS**

<i>(thousands of dollars)</i>	<b>March 31, 2003</b>		<b>December 31, 2002</b>	
Investments subject to significant influence	\$	571	\$	7,084
Portfolio investments		39,707		37,640
	<b>\$</b>	<b>40,278</b>	<b>\$</b>	<b>44,724</b>

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**NOTE 6. GOODWILL**

<i>(thousands of dollars)</i>	<b>March 31, 2003</b>		<b>December 31, 2002</b>	
Goodwill, at cost	\$	443,954	\$	468,004
Impairment provision		(58,622)		(58,622)
Accumulated amortization		(41,860)		(43,572)
	\$	343,472	\$	365,810

Changes in the cost of goodwill and accumulated amortization are a result of foreign exchange fluctuations.

**NOTE 7. NOTES PAYABLE AND BANK ADVANCES**

At March 31, 2003 the Company has \$nil (December 31, 2002 - \$nil million) outstanding under its commercial paper program. The Company has lines of credit available of \$485.0 million (December 31, 2002 - \$535.0 million). These lines consist of \$300.0 million (December 31, 2002 - \$300.0 million) in committed lines supporting the Company's commercial paper program, \$75.0 million (December 31, 2002 - \$125.0 million) in committed lines supporting a Stratos loan guarantee and \$110.0 million (December 31, 2002 - \$110.0 million) in uncommitted operating lines. Certain of the Company's subsidiaries also have lines of credit available totalling \$107.5 million (December 31, 2002 - \$ 130.5 million) for operating and acquisition purposes.

**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 March 31, 2003, the balance of this restructuring provision included in payables and accruals totaled \$4.1 million (December 31, 2002 - \$10.0 million). The remaining provision will be drawn down during 2003.

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**NOTE 9. LONG-TERM DEBT**

<i>(thousands of dollars)</i>	<b>Interest rate</b>	<b>Maturity</b>	<b>March 31 2003</b>	<b>December 31 2002</b>
<i>Telecommunications</i>				
Notes	5.35%-6.80%	2004-2011	\$ 600,000	\$ 600,000
Bonds	8.76%-11.45%	2008-2019	192,500	192,500
Debentures	6.40%-11.13%	2003-2025	265,000	265,000
Other			2,000	2,000
			1,059,500	1,059,500
Present value of obligations under capital leases			2,361	3,526
<b>Total - Telecommunications</b>			<b>1,061,861</b>	<b>1,063,026</b>
<i>Information Technology</i>				
Mortgages	Prime plus 1%-1.5%	2012	893	917
Present value of obligations under capital leases			486	429
<b>Total - Information Technology</b>			<b>1,379</b>	<b>1,346</b>
<i>Remote Communications</i>				
Term debt	LIBOR + 2.00%	2005	264,205	291,856
Acquisition facility	LIBOR + 2.00%	2004	33,759	44,173
Other	7.59%	Various	2,191	2,368
<b>Total - Remote Communications</b>			<b>300,155</b>	<b>338,397</b>
<i>Other</i>				
Mortgages	6.89%	2004	1,410	1,430
Bank loans	7.02% - Prime plus 5.00%	2002-2004	2,869	3,119
Other	0% - Prime plus 4.00%	2004-2007	785	887
Present value of obligations under capital leases			369	395
<b>Total - Other</b>			<b>5,433</b>	<b>5,831</b>
<b>Total long-term debt</b>			<b>1,368,828</b>	<b>1,408,600</b>
<b>Less: Portion due within one year</b>			<b>135,438</b>	<b>143,064</b>
			<b>\$ 1,233,390</b>	<b>\$ 1,265,536</b>

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**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>	<b>March 31, 2003</b>		<b>December 31, 2002</b>	
Stratos Global Corporation	\$	155,427	\$	161,612
TechKnowledge Inc.		719		839
Atlantic Mobility Products Ltd.		2,641		2,435
Sablecom		2,042		1,997
AMI Offshore Inc.		3,750		3,973
	\$	164,579	\$	170,856

**NOTE 11. CAPITAL STOCK**

*Authorized*

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

Unlimited number of common shares, without par value.

*Issued*

<i>(thousands of dollars)</i>	<b>March 31, 2003</b>		<b>December 31, 2002</b>	
	<b>Number of shares</b>	<b>Value</b>	<b>Number of shares</b>	<b>Value</b>
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares	138,927,943	1,048,537	139,513,639	1,065,386
		\$ 1,220,801		\$ 1,237,650

The following table summarizes the changes in issued common shares of the Company:

<i>(thousands of dollars)</i>	<b>March 31, 2003</b>		<b>December 31, 2002</b>	
	<b>Number of shares</b>	<b>Value</b>	<b>Number of shares</b>	<b>Value</b>
Stock option plan (Note 14)	113,989	\$ 2,130	437,018	\$ 7,369
Common shareholder dividend reinvestment and stock purchase plan	52,115	1,444	1,373,235	38,335
Employees' stock savings plan (Note 14)	-	-	441,539	12,452
Shares purchased for cancellation	(751,800)	(20,423)	(264,300)	(7,186)
	(585,696)	\$ (16,849)	1,987,492	\$ 50,970

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.

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**NOTE 11. CAPITAL STOCK (Continued)**

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 dividends in the amount of \$2.2 million (December 31, 2002 - \$41.5 million).

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 approximately 1.1% of the issued and outstanding common shares of Aliant Inc. 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.

For the three months ended, March 31, 2003, the Company purchased and cancelled 751,800 shares (December 31, 2002 - 264,300) for an aggregate price of \$20.4 million (December 31, 2002 - \$7.2 million), all of which was charged to share capital.

**NOTE 12. SEGMENTED INFORMATION**

The Company operates through three reportable segments:

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

Effective January 1, 2003, Innovatia Inc. was transferred to the telecommunications segment with the remaining businesses previously reported under the emerging business segment included with all others.

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.

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**NOTE 12. SEGMENTED INFORMATION (Continued)**

<b>For the three month period ended March 31</b>		<b>2003</b>				
<i>(thousands of dollars)</i>	Telecom- munications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 425,147	\$ 73,832	\$ 144,056	\$ 12,398	\$ -	\$ 655,433
Intersegment revenue	4,714	34,227	-	1,215	(40,156)	-
Operating revenue	429,861	108,059	144,056	13,613	(40,156)	655,433
Operating expenses	242,140	109,594	111,175	19,727	(39,565)	443,071
Depreciation and amortization	96,173	2,784	11,002	1,135	(889)	110,205
Loss on foreign exchange	-	-	-	-	-	-
Other expenses (income)	446	93	-	(485)	2,453	2,507
Interest charges	20,812	633	6,525	1,837	(2,453)	27,354
Income taxes (recovery)	27,629	(1,713)	4,596	(1,605)	(243)	28,664
Non-controlling interest	-	(63)	5,030	(223)	-	4,744
Net income (loss)	\$ 42,661	\$ (3,269)	\$ 5,728	\$ (6,773)	\$ 541	\$ 38,888
Total assets	\$ 2,738,984	\$ 204,973	\$ 763,003	\$ 2,001,762	\$ (2,109,795)	\$ 3,598,927
Capital investments	\$ 69,791	\$ 507	\$ 6,018	\$ 381	\$ -	\$ 76,697

<b>For the three month period ended March 31</b>		<b>2002</b>				
<i>(thousands of dollars)</i>	Telecom- munications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 415,028	\$ 83,502	\$ 126,540	\$ 20,577	\$ -	\$ 645,647
Intersegment revenue	4,379	38,024	-	676	(43,079)	-
Operating revenue	419,407	121,526	126,540	21,253	(43,079)	645,647
Operating expenses	224,247	112,946	95,127	26,680	(41,229)	417,771
Depreciation and amortization	93,466	2,855	9,757	1,773	-	107,851
Loss on foreign exchange	-	-	458	-	-	458
Other expenses (income)	834	(29)	193	(2,151)	2,628	1,475
Interest charges	21,783	373	12,439	1,778	(2,628)	33,745
Income taxes (recovery)	30,003	2,484	(4,479)	(1,959)	(835)	25,214
Non-controlling interest	194	(33)	5,073	446	-	5,680
Net income (loss)	\$ 48,880	\$ 2,930	\$ 7,972	\$ (5,314)	\$ (1,015)	\$ 53,453
Total assets	\$ 2,788,297	\$ 275,514	\$ 802,331	\$ 2,023,459	\$ (2,060,692)	\$ 3,828,909
Capital investments	\$ 90,523	\$ 946	\$ 14,193	\$ 990	\$ -	\$ 106,652

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**NOTE 12. SEGMENTED INFORMATION (Continued)**

*Revenue from external customers by product and service:*

**For the three months ended March 31**

<i>(thousands of dollars)</i>	<b>2003</b>	<b>2002</b>
Telecommunications		
Local	\$ 188,023	\$ 189,959
Long distance	96,090	97,166
Wireless	73,161	61,224
Other telecommunications	67,873	66,679
	<u>425,147</u>	<u>415,028</u>
Information technology		
Fulfillment	47,568	54,904
Services	26,264	28,598
	<u>73,832</u>	<u>83,502</u>
Remote communications		
Mobile satellite services	107,727	90,606
Broadband services	36,329	35,934
	<u>144,056</u>	<u>126,540</u>
Other	12,398	20,577
	<u>\$ 655,433</u>	<u>\$ 645,647</u>

**NOTE 13. EARNINGS PER COMMON SHARE**

**For the three months ended March 31**

<i>(thousands of dollars except per share amounts)</i>	<b>2003</b>	<b>2002</b>
Net income applicable to common shares:		
Net income	\$ 38,888	\$ 53,453
Preferred share dividends	(2,384)	(2,384)
Net income applicable to common shares	<u>\$ 36,504</u>	<u>\$ 51,069</u>
Basic:		
Average number of common shares outstanding	139,256	137,885
Basic earnings per share	<u>\$ 0.26</u>	<u>\$ 0.37</u>
Diluted:		
Average number of common shares outstanding	139,256	137,885
Impact of outstanding stock options	-	145
	<u>139,256</u>	<u>138,030</u>
Diluted earnings per share	<u>\$ 0.26</u>	<u>\$ 0.37</u>

Common shares issuable under the terms of the Company's stock option plans have not been included in the calculation of diluted earnings per share as their effect is anti-dilutive for 2003.

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**NOTE 13. EARNINGS PER COMMON SHARE (Continued)**

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, excluding those granted in 2003 for which compensation was recorded, as described in Note 2.

**For the three months ended March 31**

*(thousands of dollars except per share amounts)*

	<b>2003</b>	<b>2002</b>
Pro-forma net income applicable to common shares:		
Net income	\$ 38,888	\$ 53,453
Preferred share dividends	(2,384)	(2,384)
Pro-forma adjustments	(456)	(298)
Pro-forma net income applicable to common shares	\$ 36,048	\$ 50,771
Basic:		
Average number of common shares outstanding	139,256	137,885
Pro-forma earnings per share	\$ 0.26	\$ 0.37
Diluted:		
Average number of common shares outstanding	139,256	137,885
Impact of outstanding stock options	-	145
	139,256	138,030
Pro-forma earnings per share	\$ 0.26	\$ 0.37

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options granted during the period ended March 31, 2003:

Dividend yield	3.41%
Expected volatility	25.30%
Risk-free interest rate	4.33%
Expected life	6.1 years

**NOTE 14. STOCK-BASED COMPENSATION PLANS**

At March 31, 2003 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 2,826,638 options for the same number of common shares were outstanding as at March 31, 2003 (December 31, 2002 – 2,680,450). 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 vest evenly over three years from the date they are granted under the plan.

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**NOTE 14. STOCK-BASED COMPENSATION PLANS (Continued)**

A summary of the status of the Company's stock option plan as of March 31, 2003 and December 31, 2002, and changes during the periods ended on those dates is presented below:

	March 31, 2003		December 31, 2002	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of period	2,680,450	\$ 28.94	2,558,275	\$ 26.67
Granted	285,470	26.79	633,049	29.05
Forfeited	(25,293)	31.32	(73,856)	25.48
Exercised	(113,989)	18.69	(437,018)	16.86
Options outstanding at end of period	2,826,638	\$ 29.12	2,680,450	\$ 28.94
Options exercisable at end of period	1,971,762	\$ 28.93	1,668,501	\$ 27.61

The following table summarizes information about stock options outstanding at March 31, 2003:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$10.63 to \$15.72	166,282	3.5	\$13.96	166,282	\$13.96
\$17.56 to \$20.08	170,351	4.8	\$19.86	170,351	\$19.86
\$21.77 to \$25.55	304,635	5.8	\$22.87	304,635	\$22.87
\$26.79 to \$34.90	1,698,587	8.2	\$30.84	965,506	\$32.57
\$35.25 to \$38.10	486,783	7.8	\$35.42	364,988	\$35.42
	2,826,638		\$29.12	1,971,762	\$28.93

The Company expects that approximately 95% of the non-vested awards at March 31, 2003 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 who 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% of eligible employees are participating in the plan.

**NOTE 14. STOCK-BASED COMPENSATION PLANS (Continued)**

*Employee 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 at 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 March 31, 2003, there were 565,414 (December 31, 2002 – 565,414) options outstanding and exercisable. The weighted average remaining contractual life of the options is 7.0 years (December 31, 2002 – 8.0 years) and the weighted average exercise price is \$9.55 (December 31, 2002 - \$8.00).

**NOTE 15. CONTINGENCIES**

- (a) 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 which could, in the aggregate, exceed \$9 million, the difference between what they received upon retirement in 1998, and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.
- (b) On May 30, 2002 the CRTC released its price cap decision, that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers ("ILECs") for the next four years effective June 1, 2002. The price cap decision, requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market, as a result of mandated rate reductions. Certain mandated revenue reductions are accumulated in an interest bearing deferral account. The deferral account will be reduced by one, or a combination of the following:
- Rate reductions for residential local services that are proposed as the result of competitive pressures;
  - Certain rate reductions for services provided to competitors;
  - The approval of exogenous factors for matters beyond control of the ILECs;
  - Rate increases less than the amount by which inflation exceeds productivity;
  - Subscriber rebates; and
  - Funding of initiatives that would benefit residential customers in other ways.

The Company has calculated its deferral account balance to be \$9.6 million as of March 31, 2003 (\$9.6 million – December 31, 2002). The Company has not recognized the deferral account as a liability in its financial statements because it has made a proposal to the CRTC to approve reductions to the deferral account by means other than rebates or rate reductions. If the CRTC rejects this proposal and requires the Company to reduce rates or issue rebates the amount in the deferral account would be charged to income and recorded as a liability.

**NOTE 16. COMPARATIVE FIGURES**

The comparative financial information has been restated to conform to the presentation adopted for 2003.

