

ALiant INC.
(Incorporated under the laws of Canada)

**INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

September 30, 2003



ALIAN T INC.
Consolidated balance sheets
(Unaudited)

<i>(thousands of dollars)</i>	As at September 30, 2003	As at December 31, 2002
		(Note 3)
Assets		
Current assets		
Cash and short-term investments	\$ 226,302	\$ 261,175
Accounts receivable (Note 4)	431,891	410,485
Inventory	25,642	27,770
Prepayments	57,898	41,228
Income tax receivable	13,338	55,536
Current assets held for sale (Note 3)	2,709	24,148
	<u>757,780</u>	<u>820,342</u>
Capital investments (Note 5)	2,205,082	2,313,793
Other assets		
Long-term investments (Note 6)	32,909	37,640
Deferred charges	107,872	118,868
Future income tax asset	52,091	18,885
Goodwill (Note 7)	320,200	365,740
Non-current assets held for sale (Note 3)	850	20,448
	<u>513,922</u>	<u>561,581</u>
Total assets	\$ 3,476,784	\$ 3,695,716
Liabilities and shareholders' equity		
Current liabilities		
Notes payable and bank advances (Note 8)	\$ 57,581	\$ 95,591
Payables and accruals (Note 9)	300,833	223,446
Income tax payable	46,236	10,939
Future income tax liability	13,677	12,658
Long-term debt due within one year (Note 10)	42,331	140,278
Current liabilities held for sale (Note 3)	2,037	19,143
	<u>462,695</u>	<u>502,055</u>
Long-term debt (Note 10)	1,181,942	1,262,491
Accrued benefit obligation	81,367	73,873
Deferred credits	11,764	12,834
Non-current liabilities held for sale (Note 3)	2,730	9,002
	<u>1,740,498</u>	<u>1,860,255</u>
Non-controlling interest (Note 11)	156,660	164,886
Shareholders' equity		
Capital stock (Note 12)	1,222,758	1,242,815
Contributed surplus	-	64,155
Retained earnings	374,493	354,080
Cumulative translation adjustment	(17,625)	9,525
	<u>1,579,626</u>	<u>1,670,575</u>
Total liabilities and shareholders' equity	\$ 3,476,784	\$ 3,695,716

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Chairman:

Director:

ALIAN T INC.
Consolidated statements of income
(Unaudited)
For the period ended September 30

	<u>Three months</u>		<u>Nine months</u>	
	2003	2002	2003	2002
<i>(thousands of dollars except per share amounts)</i>	<i>(Note 3)</i>		<i>(Note 3)</i>	
Operating revenues (Note 13)	\$ 646,496	\$ 637,591	\$ 1,955,089	\$ 1,916,756
Expenses				
Cost of operating revenues	161,694	168,621	508,386	516,137
Operating expenses	240,112	243,857	733,923	700,855
Depreciation and amortization	108,299	109,364	326,268	320,557
Restructuring charge (Note 9)	15,500	-	15,500	-
	<u>525,605</u>	<u>521,842</u>	<u>1,584,077</u>	<u>1,537,549</u>
Operating income	<u>120,891</u>	<u>115,749</u>	<u>371,012</u>	<u>379,207</u>
Other income (expenses)				
Gain on foreign exchange (Note 2)	-	-	-	23,944
Other income (expenses)	2,074	(720)	1,582	28,148
	<u>2,074</u>	<u>(720)</u>	<u>1,582</u>	<u>52,092</u>
Interest charges				
Interest on long-term debt	25,179	29,216	78,090	94,772
Other interest expense	252	1,184	769	1,405
	<u>25,431</u>	<u>30,400</u>	<u>78,859</u>	<u>96,177</u>
Income before underlisted items	<u>97,534</u>	<u>84,629</u>	<u>293,735</u>	<u>335,122</u>
Income taxes	36,447	34,770	111,131	110,769
Income before non-controlling interest	<u>61,087</u>	<u>49,859</u>	<u>182,604</u>	<u>224,353</u>
Non-controlling interest	4,928	2,383	15,274	20,659
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Net loss from discontinued operations (Note 3)	\$ (5,227)	\$ (3,336)	\$ (6,944)	\$ (21,599)
Net income	\$ 50,932	\$ 44,140	\$ 160,386	\$ 182,095
Earnings per common share (Note 14)				
Basic from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Basic from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Basic	<u>\$ 0.36</u>	<u>\$ 0.30</u>	<u>\$ 1.11</u>	<u>\$ 1.26</u>
Diluted from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Diluted from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Diluted	<u>\$ 0.36</u>	<u>\$ 0.30</u>	<u>\$ 1.11</u>	<u>\$ 1.26</u>

See accompanying notes to the consolidated financial statements

ALIAN T INC.
Consolidated statements of retained earnings
(Unaudited)
For the nine months ended September 30

<i>(thousands of dollars)</i>	2003	2002
Retained earnings, beginning of period	\$ 354,080	\$ 317,988
Net income	160,386	182,095
Preferred share dividends	(7,153)	(7,153)
Common share dividends	(110,634)	(96,196)
Excess of repurchase of common shares over stated value	(22,186)	-
Retained earnings, end of period	\$ 374,493	\$ 396,734

See accompanying notes to the consolidated financial statements

ALIAN T INC.
Consolidated statements of cash flows
(Unaudited)
For the period ended September 30

(thousands of dollars)	<u>Three months</u>		<u>Nine months</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
		(Note 3)		(Note 3)
Cash and cash equivalents from (used in) operations				
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Add (deduct) non-cash items:				
Depreciation and amortization	108,299	109,364	326,268	320,557
Gain on foreign exchange	-	-	-	(23,944)
(Gain) loss on disposal of assets	(653)	475	(226)	(29,453)
Future income taxes	(12,804)	(18,739)	(39,496)	(20,616)
Deferred pension costs	14,012	2,908	37,331	8,723
Non-controlling interest share of income	4,928	2,383	15,274	20,659
Other non-cash items	386	(11)	89	(114)
	<u>170,327</u>	<u>143,856</u>	<u>506,570</u>	<u>479,506</u>
Change in non-cash working capital balances related to operations	<u>47,282</u>	<u>23,934</u>	<u>128,005</u>	<u>(19,409)</u>
	<u>217,609</u>	<u>167,790</u>	<u>634,575</u>	<u>460,097</u>
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	21,914	(2,904)	(38,010)	(12,295)
Proceeds from long-term debt	-	1,000	-	101,000
Repayments of long-term debt	(22,967)	(17,054)	(131,750)	(208,469)
Increase in non-controlling interest	206	73	344	108,235
Proceeds from issue (repurchase) of common shares	(78,556)	(4,626)	(113,205)	13,873
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Common share dividends	(35,550)	(32,641)	(103,827)	(56,882)
	<u>(117,337)</u>	<u>(58,536)</u>	<u>(398,601)</u>	<u>(76,691)</u>
Cash and cash equivalents from (used in) investing				
Capital investments	(96,928)	(97,855)	(251,497)	(318,313)
Proceeds on sale of investments	857	1,224	3,338	9,900
Decrease (increase) in investments	14	66	-	(985)
Increase in deferred credits	(1,334)	(237)	(27,767)	(1,603)
	<u>(97,391)</u>	<u>(96,802)</u>	<u>(275,926)</u>	<u>(311,001)</u>
Cash and short-term investments from (used in) continuing operations	2,881	12,452	(39,952)	72,405
Cash and short-term investments from (used in) discontinued operations (Note 3)	(7,778)	(1,232)	11,265	3,064
Cash and short-term investments, beginning of period	232,459	194,553	261,175	130,304
Effect of exchange rate changes on cash	(1,260)	1,256	(6,186)	1,256
Cash and short-term investments, end of period	\$ 226,302	\$ 207,029	\$ 226,302	\$ 207,029
Supplementary disclosure				
Interest paid	\$ 18,858	\$ 22,570	\$ 74,316	\$ 86,604
Income taxes paid	\$ 20,726	\$ 29,872	\$ 82,349	\$ 118,928

See accompanying notes to the consolidated financial statements

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 stock-based compensation plan. These interim consolidated financial statements do not include all of the disclosures required in annual financial statements. Accordingly, 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 September 30, 2003, the principal subsidiaries of the Company include: Aliant Telecom Inc., Innovatia Inc., Aliant ActiMedia, Aliant Information Technology Inc., Xwave Solutions Inc., and Stratos Global Corporation.

The following subsidiaries have been classified as discontinued operations: AMI Offshore Inc., Prexar LLC, Aliant Energy Services Inc., and 3618412 Canada Inc. ("SableCom"), as discussed in Note 3.

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 may differ from those estimates.

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 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

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfer of receivables (continued)

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 the 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 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 and reported under deferred

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments (continued)

charges 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.

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 where investment returns (gains or losses) in excess of expected returns are recognized in the asset value over a period of 3 years.
- (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 13 years at September 30, 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.

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as of December 31, 2002):

	Pension Benefit Plans		Other Benefit Plans	
	2003	2002	2003	2002
Discount rate	6.75%	6.75%	6.75%	6.75%
Expected long-term rate of return on plan assets	7.50%	7.50%	-	-
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%

For measurement purposes, it was assumed that the per capita cost of covered health care benefits would increase by 8.0% for 5 years, and by 4.5% per year thereafter.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post employment benefits (Continued)

Discount rates are based on the range of current interest rates on long-term debt of high-quality ('A' rating or higher) corporate issuers. Expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given the Company's policy asset mix. Over the past 10 years, the weighted average rate of return for the Company's defined benefit pension plans was 8.9% per annum.

A valuation is performed at least every three years to determine the actuarial present value of the accrued pension and other non-pension post employment benefits. The latest valuation is dated September 23, 2003 and was performed as of December 31, 2002.

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 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 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 15. A subsidiary of the Company also has a stock-based compensation plan specific to its own shares. 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 value method. Compensation expense recognition commences when stock options are issued, with full recognition over the vesting period, being three years for the Company and varying vesting terms for the subsidiary of the Company. The expense to be amortized over the vesting period is determined using Black-Scholes model. This accounting change resulted in an increase in expense of \$0.6 million and \$1.0 million respectively for the three and nine months ended September 30, 2003.

As permitted under the 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 standard, the Company is disclosing the pro-forma net income and pro-forma earnings per share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in Note 14.

Compensation expense is also recognized for the Company's contributions to the employees' stock savings plan.

Another subsidiary of the Company had a stock-based compensation plan specific to its own shares. Participants in this plan cash settled the options during the third quarter of 2003. The difference between the liability recorded and the cash settlement was recorded as compensation expense.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 was 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 was 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 \$1.35 at September 30, 2003 (US \$1.00 = Canadian \$1.58 at December 31, 2002). Resulting unrealized gains or losses, due to fluctuations in exchange rates during the period, are deferred and included in shareholders' equity as a cumulative translation adjustment. Revenues and expenses are translated at the average exchange rate prevailing during the period.

NOTE 3. DISCONTINUED OPERATIONS

Effective January 1, 2003, Innovatia Inc., which was previously reported under the Emerging business segment, has been transferred to the Telecommunications segment. The remaining assets of the Emerging business segment and other investments, were disposed of as follows:

- April 2003 - the 29.3% interest in iMagicTV Inc. was sold,
- May 2003 - the assets of Prexar LLC were sold,
- August 2003 - the 50% investment in SableCom was sold,
- August 2003 - subsidiaries of AMI Offshore Inc. ("AMI") were sold. AMI now has virtually no operations and the company is in the process of being divested at September 30, 2003, and
- September 2003 - Aliant Energy Services Inc. was wound up.

For reporting purposes, the results of operations of, AMI Offshore Inc., Prexar LLC, iMagicTV Inc., Aliant Energy Services Inc., and SableCom have been presented as discontinued operations. Accordingly, prior period financial statements, including segmented information as disclosed in Note 13, have been reclassified to reflect this change.

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 3. DISCONTINUED OPERATIONS (Continued)

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

<i>(thousands of dollars)</i>	Three Months		Nine months	
	2003	2002	2003	2002
Operating revenues	\$ 6,546	\$ 16,477	\$ 29,124	\$ 53,068
Operating expenses	7,229	19,752	37,304	59,081
Other expenses	3,206	1,356	10,037	19,779
Gain (loss) on disposal	(3,417)	-	10,166	-
Interest on long-term debt	71	125	351	435
Income tax (recovery)	(1,019)	(1,187)	319	(5,239)
Non-controlling interest	(1,131)	(233)	(1,777)	611
Net loss from discontinued operations	\$ (5,227)	\$ (3,336)	\$ (6,944)	\$ (21,599)

NOTE 4. 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 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 September 30, 2003, the Company had sold \$130.0 million (December 31, 2002 - \$135.0 million) of accounts receivable and transferred \$158.7 million (December 31, 2002 - \$164.9 million) of receivables to the trust. Included in deferred charges is the Company's retained interest of \$28.7 million (December 31, 2002 - \$29.9 million).

During the nine months ended September 30, 2003, the Company recognized a pre-tax loss of approximately \$3.4 million (December 31, 2002 - \$3.7 million) on the transfer of receivables.

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 5. CAPITAL INVESTMENTS

September 30, 2003			
<i>(thousands of dollars)</i>	Cost	Accumulated depreciation	Net book value
Land	\$ 15,058	\$ -	\$ 15,058
Buildings and towers	343,350	171,824	171,526
Telecommunications facilities and equipment	4,316,899	2,761,385	1,555,514
Application software and other equipment	900,532	507,279	393,253
Capital under construction	60,414	-	60,414
Materials and supplies	9,317	-	9,317
	\$ 5,645,570	\$ 3,440,488	\$ 2,205,082

December 31, 2002			
<i>(thousands of dollars)</i>	Cost	Accumulated depreciation	Net book value
Land	\$ 15,568	\$ -	\$ 15,568
Buildings and towers	339,975	165,285	174,690
Telecommunications facilities and equipment	4,242,723	2,616,912	1,625,811
Application software and other equipment	928,655	462,875	465,780
Capital under construction	22,690	-	22,690
Materials and supplies	9,254	-	9,254
	\$ 5,558,865	\$ 3,245,072	\$ 2,313,793

NOTE 6. LONG-TERM INVESTMENTS

<i>(thousands of dollars)</i>	September 30, 2003		December 31, 2002	
Investments subject to significant influence	\$	(153)	\$	-
Portfolio investments		33,062		37,640
	\$	32,909	\$	37,640

NOTE 7. GOODWILL

<i>(thousands of dollars)</i>	September 30, 2003		December 31, 2002	
Goodwill, at cost	\$	407,064	\$	456,154
Cumulative impairment provision		(50,000)		(50,000)
Accumulated amortization as of December 31, 2002		(36,864)		(40,414)
	\$	320,200	\$	365,740

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

NOTE 8. NOTES PAYABLE AND BANK ADVANCES

At September 30, 2003 the Company has \$nil (December 31, 2002 - \$nil) outstanding under its commercial paper program. The Company has lines of credit available of \$500.0 million (December 31, 2002 - \$535.0 million). These lines consist of \$350.0 million (December 31, 2002 - \$300.0 million) in committed lines supporting the Company's commercial paper program, \$nil (December 31, 2002 - \$125.0 million) in committed lines supporting a Stratos loan guarantee, and \$150.0 million (December 31, 2002 - \$110.0 million) in uncommitted lines. Certain of the Company's subsidiaries also have lines of credit available totalling \$57.0 million (December 31, 2002 - \$125.0 million) for operating purposes.

NOTE 9. 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 September 30, 2003, the balance of this restructuring provision included in payables and accruals totaled \$2.0 million (December 31, 2002 - \$10.0 million).

During the third quarter of 2003, the Company executed a comprehensive restructuring plan of xwave's operations, which resulted in a charge of \$15.5 million against earnings. The objective of the plan is to restore profitability, improve productivity, realign xwave's strategy, and simplify its business model.

Costs associated with the restructuring plan, which include severance and related benefits, equipment lease cancellation penalties and real estate rationalization costs, are being charged against this provision. As at September 30, 2003, the balance of this restructuring provision included in payables and accruals totalled \$10.0 million. The remaining provision will be drawn down during the last quarter of 2003.

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 10. LONG-TERM DEBT

<i>(thousands of dollars)</i>	Interest rate	Maturity	September 30 2003	December 31 2002
<i>Telecommunications</i>				
Notes	5.35%-6.80%	2004-2011	\$ 600,000	\$ 600,000
Bonds	8.76%-11.40%	2009-2019	185,000	192,500
Debentures	8.30%-11.13%	2013-2025	200,000	265,000
Other			-	2,000
			985,000	1,059,500
Present value of obligations under capital leases			4,990	3,526
Total - Telecommunications			989,990	1,063,026
<i>Information Technology</i>				
Mortgages			-	917
Other		2005	276	-
Present value of obligations under capital leases			125	429
Total - Information Technology			401	1,346
<i>Remote Communications</i>				
Term debt	LIBOR + 2.00%	2005	221,924	291,856
Acquisition facility	LIBOR + 2.00%	2004	9,989	44,173
Other	7.59%	Various	1,592	2,368
Present value of obligations under capital leases			377	-
Total - Remote Communications			233,882	338,397
Total long-term debt			1,224,273	1,402,769
Less: Portion due within one year			42,331	140,278
			\$ 1,181,942	\$ 1,262,491

Telecommunications:

On June 16, 2003, a \$65 million 6.40% Debenture NB Tel Series AI matured.

On July 28, 2003, a \$7.5 million 11.45% first mortgage bond was repaid.

Remote Communications:

Scheduled and additional payments of \$57.3 million (U.S. \$41.3 million) were made since December 31, 2002, split equally between the term debt and acquisition facility. The long-term debt balance at September 30, 2003 also includes foreign exchange fluctuations of \$46.7 million since December 31, 2002.

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 11. NON-CONTROLLING INTEREST

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

<i>(thousands of dollars)</i>	September 30, 2003		December 31, 2002	
Stratos Global Corporation	\$	152,849	\$	161,612
TechKnowledge Inc.		705		839
Atlantic Mobility Products Ltd.		3,106		2,435
	\$	156,660	\$	164,886

NOTE 12. 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>	September 30, 2003		December 31, 2002	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares	136,058,679	1,050,494	139,513,639	1,070,551
		\$ 1,222,758		\$ 1,242,815

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

<i>(thousands of dollars)</i>	September 30, 2003		December 31, 2002	
	Number of shares	Value	Number of shares	Value
Stock option plan (Note 15)	271,781	\$ 5,096	437,018	\$ 7,369
Common shareholder dividend reinvestment and stock purchase plan	151,112	4,445	1,373,235	38,335
Employees' stock savings plan (Note 15)	-	-	441,539	12,452
Shares purchased for cancellation	(3,877,853)	(29,598)	(264,300)	(2,021)
	(3,454,960)	\$ (20,057)	1,987,492	\$ 56,135

NOTE 12. CAPITAL STOCK (Continued)

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 dividends in the amount of \$6.8 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 could be made during the 12-month period commencing July 22, 2002 and ending on July 21, 2003. Aliant Inc. purchased and cancelled all of the 1,600,000 shares as of June 2003, of which 1,335,700 shares were in 2003.

On July 30, 2003, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 6,925,000 of its outstanding common shares on the Toronto Stock Exchange, representing approximately 5.0% of the issued and outstanding common shares of Aliant Inc. as of that date, being 138,517,283 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. Bell Canada, Aliant's majority shareholder, will sell shares into the normal course issuer bid on a pro-rata basis and the Toronto Stock Exchange has granted an exemption to permit Aliant to make purchases from Bell Canada on that basis. Purchases of common shares may be made during the 12-month period commencing August 6, 2003 and ending on August 5, 2004. As of September 30, 2003, 2,542,153 shares were purchased for cancellation.

For the nine months ended, September 30, 2003, the Company purchased for cancellation 3,877,853 shares (December 31, 2002 - 264,300) for an aggregate price of \$115.9 million (December 31, 2002 - \$7.2 million) which reduced capital stock by \$29.6 million (December 31, 2002 - \$2.0 million), contributed surplus by \$64.1 million (December 31, 2002 - \$5.2 million) and retained earnings by \$22.2 million (December 31, 2002 - \$nil million).

NOTE 13. 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., Innovatia Inc., and Aliant ActiMedia.

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 13. SEGMENTED INFORMATION (Continued)

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 reported as discontinued operations.

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.

<i>(thousands of dollars)</i>	For the three month period ended September 30 2003					
	Telecom- munications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 456,442	\$ 53,259	\$ 136,620	\$ 175	\$ -	\$ 646,496
Intersegment revenue	4,017	28,954	-	-	(32,971)	-
Operating revenues	460,459	82,213	136,620	175	(32,971)	646,496
Operating expenses	243,689	78,225	107,755	5,353	(33,216)	401,806
Depreciation and amortization	95,675	3,000	9,986	417	(779)	108,299
Restructuring charge	-	15,500	-	-	-	15,500
Gain on foreign exchange	-	-	-	-	-	-
Other income (expenses)	1,522	1,166	-	1,819	(2,433)	2,074
Interest charges	20,385	473	5,175	1,831	(2,433)	25,431
Income taxes (recovery)	41,256	(5,562)	3,826	(3,271)	198	36,447
Non-controlling interest	206	21	4,619	82	-	4,928
Net income (loss) from continuing operations	\$ 60,770	\$ (8,278)	\$ 5,259	\$ (2,418)	\$ 826	\$ 56,159
Net loss from discontinued operations	\$ (2,097)	\$ -	\$ -	\$ (3,130)	\$ -	\$ (5,227)
Net income (loss)	\$ 58,673	\$ (8,278)	\$ 5,259	\$ (5,548)	\$ 826	\$ 50,932
Total assets	\$ 2,748,801	\$ 164,750	\$ 686,644	\$ 1,842,924	\$ (1,966,335)	\$ 3,476,784

ALIAN INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 13. SEGMENTED INFORMATION (Continued)

For the three month period ended September 30

2002

(Note 3)

<i>(thousands of dollars)</i>	Telecom- munications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 461,304	\$ 48,094	\$ 128,215	\$ (22)	\$ -	\$ 637,591
Intersegment revenue	4,198	35,086	-	(45)	(39,239)	-
Operating revenues	465,502	83,180	128,215	(67)	(39,239)	637,591
Operating expenses	248,724	94,639	101,476	5,168	(37,529)	412,478
Depreciation and amortization	94,000	3,242	11,971	151	-	109,364
Restructuring charge	-	-	-	-	-	-
Gain on foreign exchange	-	-	-	-	-	-
Other income (expenses)	(1,605)	376	-	1,742	(1,233)	(720)
Interest charges	22,545	480	7,743	866	(1,234)	30,400
Income taxes (recovery)	40,255	(5,828)	2,728	(1,681)	(704)	34,770
Non-controlling interest	399	16	2,009	(41)	-	2,383
Net income (loss) from continuing operations	\$ 57,974	\$ (8,993)	\$ 2,288	\$ (2,788)	\$ (1,005)	\$ 47,476
Net loss from discontinued operations	\$ (169)	\$ -	\$ -	\$ (3,167)	\$ -	\$ (3,336)
Net income (loss)	\$ 57,805	\$ (8,993)	\$ 2,288	\$ (5,955)	\$ (1,005)	\$ 44,140
Total assets	\$ 2,706,034	\$ 223,951	\$ 815,177	\$ 1,917,663	\$ (1,784,045)	\$ 3,878,780

For the nine month period ended September 30

2003

<i>(thousands of dollars)</i>	Telecom- munications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,340,386	\$ 181,713	\$ 432,082	\$ 908	\$ -	\$ 1,955,089
Intersegment revenue	14,007	95,277	-	-	(109,284)	-
Operating revenues	1,354,393	276,990	432,082	908	(109,284)	1,955,089
Operating expenses	726,485	272,691	337,964	16,590	(111,421)	1,242,309
Depreciation and amortization	287,890	8,791	31,383	831	(2,627)	326,268
Restructuring charge	-	15,500	-	-	-	15,500
Gain on foreign exchange	-	-	-	-	-	-
Other income (expenses)	1,704	1,127	-	7,189	(8,438)	1,582
Interest charges	61,975	1,737	17,248	6,337	(8,438)	78,859
Income taxes (recovery)	110,845	(7,991)	13,224	(5,606)	659	111,131
Non-controlling interest	207	(19)	15,086	-	-	15,274
Net income (loss) from continuing operations	\$ 168,695	\$ (12,592)	\$ 17,177	\$ (10,055)	\$ 4,105	\$ 167,330
Net loss from discontinued operations	\$ (2,434)	\$ -	\$ -	\$ (4,510)	\$ -	\$ (6,944)
Net income (loss)	\$ 166,261	\$ (12,592)	\$ 17,177	\$ (14,565)	\$ 4,105	\$ 160,386
Total assets	\$ 2,748,801	\$ 164,750	\$ 686,644	\$ 1,842,924	\$ (1,966,335)	\$ 3,476,784

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 13. SEGMENTED INFORMATION (Continued)

<i>(thousands of dollars)</i>	For the nine month period ended September 30					
	2002					
	Telecom- munications	Information technology	Remote communications	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,331,910	\$ 198,468	\$ 383,504	\$ 2,874	\$ -	\$ 1,916,756
Intersegment revenue	12,788	109,893	-	(370)	(122,311)	-
Operating revenues	1,344,698	308,361	383,504	2,504	(122,311)	1,916,756
Operating expenses	712,663	302,405	302,208	16,540	(116,824)	1,216,992
Depreciation and amortization	278,990	9,042	31,904	621	-	320,557
Restructuring charge	-	-	-	-	-	-
Gain on foreign exchange	-	-	23,944	-	-	23,944
Other income (expenses)	(2,766)	448	-	37,246	(6,780)	28,148
Interest charges	66,536	1,237	31,347	3,838	(6,781)	96,177
Income taxes (recovery)	113,034	(825)	(734)	1,306	(2,012)	110,769
Non-controlling interest	816	(11)	19,977	(123)	-	20,659
Net income (loss) from continuing operations	\$ 169,893	\$ (3,039)	\$ 22,746	\$ 17,568	\$ (3,474)	\$ 203,694
Net loss from discontinued operations	\$ (507)	\$ -	\$ -	\$ (21,092)	\$ -	\$ (21,599)
Net income (loss)	\$ 169,386	\$ (3,039)	\$ 22,746	\$ (3,524)	\$ (3,474)	\$ 182,095
Total assets	\$ 2,706,034	\$ 223,951	\$ 815,177	\$ 1,917,663	\$ (1,784,045)	\$ 3,878,780

Revenue from external customers by product and service:

For the period ended September 30

<i>(thousands of dollars)</i>	Three months		Nine months	
	2003	2002	2003	2002
Telecommunications				
Local	\$ 189,966	\$ 194,326	\$ 566,462	\$ 577,799
Long distance	94,142	95,843	282,755	290,845
Wireless	89,226	75,501	242,872	204,129
Other telecommunications	83,108	95,634	248,297	259,137
	456,442	461,304	1,340,386	1,331,910
Information technology				
Fulfillment	27,124	22,699	99,628	112,879
Services	26,135	25,395	82,085	85,589
	53,259	48,094	181,713	198,468
Remote communications				
Mobile satellite services	104,213	91,428	328,468	275,619
Broadband services	32,407	36,787	103,614	107,885
	136,620	128,215	432,082	383,504
Other	175	(22)	908	2,874
	\$ 646,496	\$ 637,591	\$ 1,955,089	\$ 1,916,756

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 14. EARNINGS PER COMMON SHARE

For the period ended September 30

	Three months		Nine months	
<i>(thousands of dollars except per share amounts)</i>	2003	2002	2003	2002
Net income applicable to common shares:				
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Net income applicable to common shares from continuing operations	\$ 53,775	\$ 45,092	\$ 160,177	\$ 196,541
Net loss from discontinued operations	(5,227)	(3,336)	(6,944)	(21,599)
Net income applicable to common shares	\$ 48,548	\$ 41,756	\$ 153,233	\$ 174,942
Basic:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Basic earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Basic earnings per common share from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Basic earnings per common share	\$ 0.36	\$ 0.30	\$ 1.11	\$ 1.26
Diluted:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Impact of outstanding stock options	55	-	-	71
	137,961	139,568	138,595	138,790
Diluted earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.16	\$ 1.42
Diluted earnings per common share from discontinued operations	(0.03)	(0.03)	(0.05)	(0.16)
Diluted earnings per common share	\$ 0.36	\$ 0.30	\$ 1.11	\$ 1.26

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 for the nine months ended September 30, 2003 and three months ended September 30, 2002 as their effect is anti-dilutive.

The table below presents pro-forma net income, earnings per common share and diluted earnings per common share using the fair value method of accounting for the stock option plan. 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.

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 14. EARNINGS PER COMMON SHARE (Continued)

For the period ended September 30	Three months		Nine months	
	2003	2002	2003	2002
<i>(thousands of dollars except per share amounts)</i>				
Pro-forma net income applicable to common shares:				
Net income from continuing operations	\$ 56,159	\$ 47,476	\$ 167,330	\$ 203,694
Preferred share dividends	(2,384)	(2,384)	(7,153)	(7,153)
Pro-forma adjustments	(305)	(501)	(1,228)	(1,829)
Pro-forma net income applicable to common shares from continuing operations	\$ 53,470	\$ 44,591	\$ 158,949	\$ 194,712
Pro-forma net loss applicable to common shares from discontinued operations	(5,227)	(3,336)	(6,944)	(21,599)
Pro-forma net income applicable to common shares	\$ 48,243	\$ 41,255	\$ 152,005	\$ 173,113
Basic:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Pro-forma earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.15	\$ 1.41
Pro-forma earnings per common share from discontinued operations	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.16)
Pro-forma earnings per common share	\$ 0.36	\$ 0.30	\$ 1.10	\$ 1.25
Diluted:				
Average number of common shares outstanding	137,906	139,568	138,595	138,719
Impact of outstanding stock options	55	-	-	71
	137,961	139,568	138,595	138,790
Pro-forma earnings per common share from continuing operations	\$ 0.39	\$ 0.33	\$ 1.15	\$ 1.41
Pro-forma earnings per common share from discontinued operations	\$ (0.03)	\$ (0.03)	\$ (0.05)	\$ (0.16)
Pro-forma earnings per common share	\$ 0.36	\$ 0.30	\$ 1.10	\$ 1.25

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:

September 30	2003	2002
Dividend yield	3.76%	3.41%
Expected volatility	23.30%	25.30%
Risk-free interest rate	4.44%	4.33%
Expected lives	6.2 years	7.2 years

ALIAN T INC.
Notes to the consolidated financial statements
(unaudited)
September 30, 2003

NOTE 15. STOCK-BASED COMPENSATION PLANS

At September 30, 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 2,629,345 options for the same number of common shares were outstanding as at September 30, 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.

A summary of the status of the Company's stock option plan as of September 30, 2003 and December 31, 2002, and changes during the periods ended on those dates are presented below:

	September 30, 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	289,138	\$26.84	633,049	\$29.05
Forfeited	(68,462)	\$31.12	(73,856)	\$25.48
Exercised	(271,781)	\$18.75	(437,018)	\$16.86
Options outstanding at end of period	2,629,345	\$29.71	2,680,450	\$28.94
Options exercisable at end of period	1,880,142	\$29.93	1,668,501	\$27.61

The following table summarizes information about stock options outstanding at September 30, 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	103,411	3.1	\$14.01	103,411	\$14.01
\$17.56 to \$20.08	137,364	4.3	\$19.83	137,364	\$19.83
\$21.77 to \$25.55	244,542	5.3	\$22.84	244,542	\$22.84
\$26.79 to \$34.90	1,660,019	8.1	\$30.85	1,023,352	\$32.59
\$35.25 to \$38.10	483,989	7.3	\$35.42	371,473	\$35.43
	2,629,325		\$29.71	1,880,142	\$29.93

The Company expects that approximately 95% of the non-vested awards at September 30, 2003 will eventually vest.

NOTE 15. STOCK-BASED COMPENSATION PLANS (Continued)

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 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.

Employee Stock Option Plan Subsidiary Companies

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. 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 have varying vesting terms.

As at September 30, 2003, there were 2,490,695 (December 31, 2002 – 2,207,245) options outstanding and 1,022,364 (December 31, 2002 – 679,350) options exercisable. The weighted average remaining contractual life of the options is 6.0 years (December 31, 2002 – 5.9 years) and the weighted average exercise price is US\$8.86 (December 31, 2002 - US\$7.57).

Another subsidiary of the Company had a stock option plan specific to its own shares, which were cash settled during the third quarter of 2003. The plan was discontinued upon settlement of the outstanding options.

NOTE 16. COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments for the next five years and thereafter are as follows: remainder of 2003 - \$34.6 million; 2004 - \$103.6 million; 2005 - \$90.5 million; 2006 - \$86.5 million; 2007 - \$62.6 million; and thereafter \$233.5 million.

NOTE 17. 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.

NOTE 17. CONTINGENCIES (Continued)

(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 \$19.2 million as of September 30, 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 18. SUBSEQUENT EVENT

On October 6, 2003 the Company announced that it had completed the sale of 26,141,024 Subscription Receipts, each of which entitles the holder to acquire one common share of Stratos Global Corporation, upon receipt of U.S. Federal Communications Commission ("FCC") approval. This approval is anticipated on or before December 31, 2003. Upon completion of this transaction the Company will have sold its entire 53.2% ownership in Stratos Global Corporation.

The Subscription Receipts were sold to a syndicate of underwriters led by RBC Capital Markets at a price of \$13.00 each. The purchase price is payable on an instalment basis, the first instalment was paid October 6, 2003, with the remainder payable shortly following approval from FCC. Instalment Receipts evidencing ownership of the Subscription Receipts commenced trading on the Toronto Stock Exchange on October 6, 2003.

The Subscription Receipts will be automatically exchanged for common shares upon receipt of FCC approval. If approval is not granted on or before February 1, 2004, the proceeds of the offering will be returned to the purchasers of the Subscription Receipts, along with interest earned thereon, and the Company will retain its investment in Stratos.

NOTE 19. COMPARATIVE FIGURES

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