



ALIAN T INC.

2004 ANNUAL INFORMATION FORM - ENGLISH

March 22, 2005

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CAUTIONARY NOTE

Throughout this Annual Information Form ("AIF"), "we", "us", "our", the "Corporation" and "Aliant" refer to Aliant Inc. or our Telecommunications and Information Technology segments.

This document contains certain statements and information about potential future circumstances and developments. Such forward-looking statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from actual future experiences of Aliant. Reference is made to the "Risk Factors" and "Forward-Looking Statements" sections for further discussion about the inherent risks and uncertainties surrounding future expectations. Except as otherwise noted, we disclaim any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

CORPORATE STRUCTURE

NAME AND INCORPORATION

Aliant Inc. was incorporated on March 9, 1999, as 3595641 Canada Inc. under the *Canada Business Corporations Act*. By Articles of Amendment filed May 18, 1999, the Corporation changed its name to Aliant Inc. Our registered office is at 69 Belvedere Avenue, Charlottetown, Prince Edward Island, C1A 7M1 and our corporate head office is at 1 Brunswick Square, Saint John, New Brunswick, E2L 4K2.

INTERCORPORATE RELATIONSHIPS

The table below presents our principal direct and indirect subsidiaries organized according to our core lines of business as at December 31, 2004. The table includes the jurisdiction of incorporation or continuance and the percentage of voting and non-voting securities or partnership interests that we beneficially owned or otherwise controlled directly or indirectly as at December 31, 2004.

Subsidiary or Investment	Jurisdiction of Incorporation or Continuance	Percentage of voting securities which Aliant Inc. beneficially owns, controls or directs
Aliant Inc.	Canada	
<u>Telecommunications segment</u>		
Aliant Telecom Inc.	Canada	100.0%
MT&T Mobility Inc.	Canada	100.0%
Atlantic Mobility Products Ltd.	Nova Scotia	45.0%
Aliant ActiMedia (Joint Venture)	New Brunswick	87.1%
Downeast Ltd.	Nova Scotia	100.0%
Innovatia Inc.	Canada	100.0%
<u>Information Technology segment</u>		
xwave Solutions Inc.	Canada	100.0%

Certain subsidiaries, which represent less than 10% of our consolidated assets, sales and operating revenues and which, in aggregate, represent not more than 20% of the same consolidated results, have been omitted from the table.

BCE Inc.'s ("BCE") indirect ownership of Aliant is approximately 53.22% (2003 - 53.50%) of our outstanding common shares, which makes BCE our controlling shareholder.

GENERAL DEVELOPMENT OF THE BUSINESS

OVERVIEW

From our home base in Atlantic Canada, we deliver a wide variety of innovative and traditional communications services, including local and long distance telephony, wireless, Internet, e-commerce, interactive multimedia, data and managed network services, to more than two million consumers and over 80,000 enterprises. Our employees build on our 100-plus year history by collaborating to deliver the highest quality of customer service, choice and convenience. The market capitalization of Aliant Inc.'s common shares was approximately \$3.7 billion as at December 31, 2004.

Our vision is to be the company with the strongest connection to the hearts and minds of Atlantic Canadians. Our mission is to enhance and simplify the lives of our fellow Atlantic Canadians through world-leading communications solutions. We listen to and collaborate with our customers and other partners to ensure Atlantic Canadians are on the leading-edge of technological change and enjoy the related products and services it enables. We combine the dependability and quality of our infrastructure, innovation and customer service to enhance our customers' capabilities, making their day-to-day lives simpler and allowing them to focus on what is important to them.

THREE YEAR HISTORY

2002 Highlights

Throughout 2002, we were engaged, through our subsidiaries, in four lines of business: Telecommunications carried out primarily by Aliant Telecom Inc. ("Aliant Telecom"), Information Technology through Xwave Solutions Inc. ("xwave"), Remote Communications through our majority ownership of Stratos Global Corporation ("Stratos") and Emerging Business organized under Aliant Horizons Inc. ("Aliant Horizons").

2003 Highlights

During 2003, we completed a number of divestitures pursuant to our strategy to focus on our core telecommunications operations. We sold our 53.2% interest in Stratos as well as the principal business assets of the Emerging Business segment. Since December 31, 2003, we have been engaged in only two business segments, Telecommunications and Information Technology.

Although an effort had been made to sell xwave in the first half of 2003, on June 19, 2003, we announced a decision to retain and restructure xwave. With this decision, a comprehensive restructuring plan was prepared and executed with the objectives of restoring profitability, improving productivity, realigning xwave's strategy with our Telecommunications segment and simplifying xwave's business model. The restructuring plan reviewed all elements of the business including leadership, business processes, systems and organizational structure. As a result we incurred restructuring charges of \$14.5 million in 2003 composed primarily of severance and related benefits for over 200 employees, but also included equipment lease cancellation penalties and real estate rationalization costs.

2004 Highlights

In 2004, we restored xwave to profitability drawing on efficiencies gained from restructuring, identifying past successes and selling similar customized solutions to a broader range of clients, and focusing on near-shore opportunities. We realigned our corporate structure to bring our

Telecommunications and Information Technology segments closer together enabling us to deliver one point of contact with business customers and provide integrated end-to-end Information and Communications Technology ("ICT") solutions. We completed several small acquisitions and dispositions to further enhance the competencies of our existing core lines of business

Labour Disruption and Voluntary Early Retirement Incentive Program

Our 2004 performance was marked by a five-month labour disruption that ended on September 20, 2004. While approximately 4,300 unionized employees withheld their services, management continued to provide our full range of services and products to our customers. A new collective agreement was signed which lasts until December 2007 and which provides us with greater flexibility to manage our workforce in a highly competitive and rapidly changing marketplace. The labour disruption is estimated to have negatively impacted our 2004 net income by \$43 million.

In October 2004, we offered a voluntary Early Retirement Incentive Program ("ERIP") to eligible employees. The offer was accepted by 693 employees or 8% of Aliant's workforce, including 654 Aliant Telecom employees. The ERIP resulted in a \$66.6 million charge against income in the fourth quarter of 2004, reducing net income by \$42.1 million. This program is expected to generate an estimated \$40 million in annualized operating expense savings and reduce annual labour costs in capital investments by \$8 million.

Both the settlement with our unionized employees and the ERIP resulted in material changes to the costs of providing pensions and other post-employment benefits ("OPEB") in 2004 and future years.

OUTLOOK FOR 2005

We are moving forward with a strategy of growth and transformation that will assist us in our goal of becoming the foremost ICT company in Atlantic Canada. We plan to transform our business model, customer service experience, products and services, internal systems, workforce and infrastructure over the next five years to respond to and leverage the impact of Internet Protocol ("IP") based technology.

The wireless and high-speed internet businesses continue to be high growth areas in Atlantic Canada. In 2005, we will continue to expand our wireless digital voice network and our wireless data network (1xRTT) to 91% of the region, up from 88% at year end 2004. We will also continue to expand our broadband network to reach 79% of homes and 84% of businesses, up from 72% of homes and 79% of businesses at the end of 2004, while deepening our coverage to provide even greater bandwidth.

In the consumer market, we plan to provide IP-television ("IPTV") service during the second quarter of 2005 in Halifax. This expansion into IPTV advances our work to accelerate the development and deployment of IP-based applications for Atlantic Canadians and will further strengthen our position as the service provider of choice for communication, information and entertainment solutions.

In addition, to spur growth in the small-to-medium-sized business ("SMB") and enterprise segments, we will leverage competencies across our telecommunications and information technology ("IT") businesses as we evolve to an ICT solutions provider. During the fourth quarter of 2004, we aligned our sales organizations, creating one, coordinated ICT sales force, focused on capturing new growth from the ICT market.

DESCRIPTION OF THE BUSINESS

BUSINESS OF ALIANT

We operate through two segments, Telecommunications and Information Technology. As we continue with the convergence of our segments we will draw on our expertise in key industries to provide ICT solutions through a single point of contact to our business customers through common sales, marketing and customer service channels.

Products and Services

The following tables summarize revenue for each category of principal products or services. Revenues are further summarized by the source from which they are derived: external customers, BCE and its controlled interests and intersegments.

Revenue by Category

For the year ended December 31, 2004

(in thousands of dollars)

Line of business	Revenue category	Revenue source:			Consolidated operating revenue
		External customers	BCE and its controlled investees	Intersegment	
Telecommunications					
	Local	\$ 716,395	\$ 33,856		\$ 750,251
	Long distance	259,356	82,010	7,143	348,509
	Wireless	382,188	4,173		386,361
	Internet	119,089			119,089
	Products	109,738			109,738
	Other	85,953	2,118		88,071
		1,672,719	122,157	7,143	1,802,019
Information technology					
		219,658	17,468	106,339	343,465
Corporate and other					
		1,413			1,413
Eliminations					
				(113,482)	(113,482)
Operating revenues					
		\$ 1,893,790	\$ 139,625	\$ -	\$ 2,033,415

For the year ended December 31, 2003

(in thousands of dollars)

Line of business	Revenue category	Revenue source:			Consolidated operating revenue
		External customers	BCE and its controlled investees	Intersegment	
Telecommunications					
	Local	\$ 742,506	\$ 22,535		\$ 765,041
	Long distance	291,192	92,777	10,334	394,303
	Wireless	323,486	9,032		332,518
	Internet	106,584			106,584
	Products	122,266			122,266
	Other	94,413	4,680		99,093
		1,680,447	129,024	10,334	1,819,805
Information technology					
		227,847	20,612	107,174	355,633
Corporate and other					
		1,121			1,121
Eliminations					
				(117,508)	(117,508)
Operating revenues					
		\$ 1,909,415	\$ 149,636	\$ -	\$ 2,059,051

We are not dependent on any single customer for 15% or more of our revenues or income, but larger business customers and government agencies do account for a significant portion of our revenues.

Employees

The number of people employed by us and our subsidiaries is presented in the table below by segment. Approximately 46% of our workforce was unionized as of December 31, 2004. While Innovatia Inc. ("Innovatia") and DownEast Ltd. ("Downeast") are not owned or operated by Aliant Telecom, for the purposes of this document we have included the employees of these companies in the Telecommunications segment.

Employee Headcount by Segment

<i>As of December 31</i>	2004	2003	2002
Telecommunications	7,105	6,653	6,504
Information Technology	1,659	2,167	2,631
Corporate and Other	96	93	95
Discontinued Operations	0	0	856
	8,860	8,913	10,086

Effective January 1, 2005 our employee numbers were reduced by approximately 400 as a result of the ERIP offered in the fourth quarter of 2004. A total of 693 employees accepted the voluntary offer, with the remainder having scheduled retirement dates extending through early 2005.

Intangible Properties

All trademarks, or corporate, trade or domain names used in this AIF are the property of their owners. We believe that our trademarks, brand and domain names are important to our success. Our exclusive trademark registrations may be renewed every 15 years provided we continue to use the trademarks in our business activities. We take appropriate measures to protect, renew and defend our trademarks. We spend considerable time and resources overseeing, registering, renewing, licensing and protecting our trademarks and prosecuting those who infringe on them. Given our great sensitivity to the importance of these assets, we are also very careful not to infringe the intellectual property of others.

Relationship with BCE and Bell Canada

Memorandum of Agreement with BCE & Bell Canada

On March 19, 1999, we entered into a Memorandum of Agreement ("MOA") with BCE and Bell Canada. This long-term strategic alliance agreement describes the understanding between Aliant, BCE and Bell Canada with respect to a strategic alliance for the provision and delivery of telecommunications services.

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

Through this MOA, we gained access to Bell Canada's technology, the exclusive right to use specified Bell Canada trademarks in our territory, and a license to use Bell Canada's promotional materials. Bell Canada agreed to promote the use and sale of technology and intellectual property developed by us.

We agreed to provide each other with support services, including access to operational support and technical, marketing, training and similar assistance. We have and will continue to attempt to achieve benefits resulting from collaboration such as the aggregation of traffic and purchasing requirements.

With an initial term of five years, the MOA will continue in effect for as long as BCE holds an interest in Aliant of at least 10%, subject to termination rights on the occurrence of certain specified events. BCE agreed not to proactively increase its ownership interest in Aliant beyond 55% except by making an offer for all remaining common shares. BCE is entitled to appoint at least two directors to an Aliant board of 13 directors (which can be increased to 15 directors without BCE's consent or additional representation). BCE currently has 5 directors appointed to the Aliant board.

Bell network alliance

In 2002, with the objective of developing a more integrated network infrastructure between Aliant Telecom and Bell Canada, we signed a Network Outsourcing Agreement ("NOA") under which:

- Bell Canada provides Technology Planning & Development engineering services for the strategic evolution and development of Aliant Telecom's network architecture and services platform;
- Bell Canada also provides Network Planning & Provisioning services for the planning, design and deployment of Aliant Telecom's network infrastructure for annual growth and augmentation; and
- Aliant Telecom manages and approves network capital expenditures, manages technology introduction and supports the development of enhanced service applications.

We also signed a bi-lateral Intellectual Property Agreement with Bell Canada that provides access to a broad spectrum of each other's intellectual property in addition to providing us with access to Bell Canada's engineering and network intellectual property.

Through these agreements we are able to leverage the economies of scale of Bell Canada's engineering organization to plan and develop our network infrastructure. This supports the following:

- migration to common network technologies;
- sharing best-in-class systems and processes;
- improvement to customer service delivery and support;
- reduction of capital and operating expense costs; and
- reduction of provisioning intervals for technology deployment to support new services.

The implementation of the NOA began in early 2003. During 2004, we strengthened our alignment with Bell Canada on new technology research and development to further increase the benefits realized under this agreement. The integration of key systems and processes was delayed in 2004 and is expected to be completed in 2005.

Environmental Policy

Protecting our people and the environment is a top priority in all aspects of our operations. Our employees work together effectively:

- to identify activities and situations which may have potential to harm the environment; and

- to implement environmentally positive practices and preventive measures.

Our environmental program ensures we comply with regulatory requirements and we monitor results to minimize risk to the environment. This policy is implemented through training and awareness, and is integrated into operations to ensure that we do not create significant impact to the environment in the course of our regular operations. We have an environment emergency response procedure in place in case an incident occurs. The policy statement itself is reviewed regularly and authorized by our chief operating officer.

The costs of the environmental program are not expected to have a material impact on earnings, capital expenditures or our competitive position in the current year or future years. As well, management is not aware of any environmental matters that materially threaten our future earnings or financial and competitive position. In the event there is a significant environmental infraction, it will be brought to the attention of our Audit Committee.

TELECOMMUNICATIONS

Products and Services

The Telecommunications segment operations are primarily carried out through our 100% ownership interest in Aliant Telecom. We provide a wide range of innovative and traditional voice and data communications services including local, long distance, wireless, Internet and other services. We also provide complementary services in:

- knowledge-service applications offered through our 100% ownership interest in Innovatia;
- retail sales at our 51 dealer and communications outlets in Nova Scotia, Newfoundland and Labrador and New Brunswick arising from our acquisition of 100% ownership interest in Downeast on October 1, 2004;
- telephone directory advertising through our 87.1% partnership interest in Aliant ActiMedia; and
- wholesale distribution of wireless handsets, accessories and other telecommunications products through our 45% ownership interest in Atlantic Mobility Products Ltd.

Atlantic Canada is the principal market in which the Telecommunications line of business operates. This line of business focuses on three customer segments: consumer, SMB and enterprise.

Local

Local revenue is derived from providing the following services:

- Network access service - monthly access charges for provision of local telephone service;
- Enhanced service features - value added services such as call answer, call display and call forwarding;
- Data access - local data access services such as frame relay, asynchronous transfer mode and interoffice digital access;
- Contribution payments - subsidies from the telecommunications industry-financed National Contribution Fund for the provision of residential local service in high cost areas;
- Competitor payments - rates paid by competitors that access our local network; and

- Other revenues - from telephone set rentals, payphone usage and service charges.

Long distance

Long distance revenue is derived from providing the following services:

- Toll service - long distance voice services including toll-free service;
- Data network service - long distance data transmission circuits; and
- Long distance terminating - the rates paid by certain telecommunications carriers for long distance calls terminating with our customers.

Wireless

Wireless revenue is earned through the provision of cellular, paging and mobile radio services over our analog and digital wireless network. Cellular revenues consist primarily of monthly recurring charges and also include charges for airtime, long distance, roaming and enhanced service features such as text and video messaging. Customers can choose to pay for their cellular service through a monthly rate plan (postpaid) or in advance (prepaid).

Internet

Internet revenue is derived from high-speed (regular and ultra) service, dial-up service and enhanced services and applications such as TV on my PC™, security services, music download service and dial-up accelerator.

Other telecommunications services

Other telecommunications revenues are primarily derived from telephone directory advertising, equipment sales, e-learning and newer revenue services such as network management and e-Commerce.

Cycles

Telecommunications operating revenues and expenses have historically experienced some degree of seasonality. Wireless revenues peak in the third quarter resulting from increased airtime, long distance and roaming during summer vacations. The revenue from advertising sales from several of our larger directories has occurred in the second quarter of each year. Also, the timing of product sales, which are typically large and sporadic in nature, can affect the comparability of quarterly results. In 2005, an accounting policy change affecting the recognition of directory revenue and expenses will reduce the seasonal effects of this business on our quarterly operating results.

New products and services

We are constantly evaluating our market and changing our product and service offerings to better meet the needs of our customers. These changes can involve pricing, packaging and new products, such as those outlined below.

In 2004, we introduced new wireless products through the introduction of the Palm Treo™ device and other handsets with expanded data and video capabilities. We were also the first to launch video messaging in Atlantic Canada. We also introduced international text messaging.

We also launched new Internet services in 2004. More specifically, we added our Ultra High-Speed Internet service, a new pay-per-download music service powered by Puretracks™ and our dial-up accelerator, which allows dial-up speeds up to five times faster than traditional dial-up service.

Our development efforts in 2004 focused on the following:

- Collaborating with our business customers to develop IP-based solutions through the launch of three Voice over Internet Protocol (“VoIP”) demonstration centers, enabling us to work with our enterprise customers. We also worked with Bell Canada towards the launch of a SMB Innovation Centre in 2005.
- Developing a Fibre-to-the-Home solution that was launched in January 2005 as a pilot project in Halifax. This project delivers VoIP and high-speed Internet at speeds almost ten times faster than regular high-speed and will allow us to trial future IP-based solutions.
- Developing an IPTV solution for our consumer market which will allow us to provide digital television service. An employee trial is already underway and we will begin the rollout of this service to our customers in Halifax in the second quarter of this year.

Marketing and distribution channels

We sell our products and services through approximately 1,500 call centre representatives, 150 direct sales representatives, 250 independent dealer stores, 51 Downeast stores and our Aliant.net website. As well, we are able to facilitate customer payments through over 250 payment agencies. During 2004, we made process improvements to simplify and speed-up various types of customer interactions and introduced online ordering on our website.

Our ability to combine service offerings is integral to our success, driving loyalty and protecting our customer base. In 2004, we improved our offerings to the consumer market by completing the introduction of Value Packages. Value Packages combine high-speed or dial-up Internet service with the customer’s choice of a long distance plan and, if desired cellular service. In 2005, Value Packages will include a television option. In our business market, we also provide combined service offerings in the form of business bundles and customized solutions.

Evolution of our network

We continue to build a state of the art Next Generation Network (“NGN”) that shall position our business to grow while providing new innovative services to our customers. We shall continue to invest in IP-based network infrastructure and customer centric applications such as VoIP, Optical Ethernet (“OE”) and Virtual Private Network Enterprise services. Our network will incorporate emerging and mature standards such as Session Initiation Protocol, Worldwide Interoperability for Microwave Access, and Multi Protocol Label Switch (“MPLS”) as part of the transition to NGN. By building and positioning the network to support future IP-Video based services, the investments we are making in the network will increase its longevity.

In 2004, we placed greater emphasis on our next generation business by upgrading our network and services to be IP capable. In conjunction with Bell Canada, Nortel Networks and our other technology partners, we will continue to build the network to support VoIP, OE and MPLS based services as customer demands, customer needs and technology dictate.

We continue to actively invest and partner with communities and government to realize the objectives and vision of Industry Canada’s Broadband for Rural and Northern Development (“BRAND”) program. BRAND is an initiative designed to bring broadband service to Aboriginal, northern and rural communities across Canada. In New Brunswick, we also worked in partnership with the provincial and federal governments to deliver broadband infrastructure to rural communities. These partnership

opportunities complement our overall investment in the growth and expansion of our Broadband High-Speed Internet DSL based service.

Our NGN transition also includes our mobile wireless network. The evolution of our existing Code-Division Multiple Access ("CDMA") voice wireless network to 1xRTT was completed in 2004. Our network now delivers the fastest wireless data speeds with the best coverage in Atlantic Canada. The rapid adoption of wireless data services by our customers has prompted us to advance our next phase of CDMA evolution called 1x Evolution Data Optimized ("1xEVDO"). 1xEVDO mobile IP technology provides even faster access to the Internet, e-mail, instant text-messaging, games, corporate networks and data, which will bring a new level of appeal for wireless devices among customers seeking a personalized, feature-rich mobile experience.

Specialized Skill and Knowledge

We are adopting IP based technologies at an increasing rate with the convergence of traditional telecom technologies and IP. Employee development programs have been developed to advance the skills of network employees in IP based technologies. Our emerging ICT strategy maximizes the unique skill set we deliver with the integration of unique network skills such as switching, transport and wireless with those in the IT sector. Initiatives are underway to team the traditional network staff with IT staff in order to increase our ICT capabilities. Furthermore, cross-training programs are available to further the knowledge of each of the groups in both network and IT.

Competitive Conditions

Atlantic Canada continues to be among the most competitive telecommunications markets in North America, especially for local telephone and wireless service. We expect that competition will continue to intensify, fuelled by technology evolution.

Local and Long Distance

Atlantic Canada is the only market in Canada where consumer local service is substantially more competitive than business. A competitive local exchange carrier ("CLEC") offers competing services in several local markets in Nova Scotia, including our largest market, Halifax, Prince Edward Island and parts of New Brunswick. In addition, an existing long distance competitor has entered the local service market using both traditional wireline and VoIP in Halifax.

Competition for long distance began a decade ago and continues to grow in intensity. Competition includes dial-around providers, prepaid card providers and others, from traditional competitors to resellers. Competitors compete for local and long distance service based on price, bundling with other offerings and low "block of minute" long distance packages.

Various companies, ranging from national cable companies to new entrants in our market, have announced their intention to launch VoIP in 2005. VoIP technology provides a low-cost means for new competitors to enter the market as there is no requirement to invest in physical networks. As VoIP technology evolves, companies that did not traditionally offer voice solutions are now able to compete in our ICT market. This new class of competitors, including IT providers, network vendors and system integrators, are exerting competitive pressure on pricing. Our ability to compete with these new market entrants could be affected by an upcoming Canadian Radio-television and Telecommunications Commission ("CRTC" or the "Commission") decision on whether VoIP be regulated. The decision is expected in the first half of 2005. The increasing presence of VoIP is expected to intensify the competitive pressure on pricing and could affect our financial performance.

Wireless

The wireless market in Atlantic Canada is very competitive. It is served by Aliant and two national service providers. Competitors in our consumer market are increasingly advertising free phones, new phones and new plans for Atlantic Canadians with reduced long distance pricing. Competition in

wireless long distance service in both the consumer and business markets is similarly intense. This competition has put pressure on revenues and margins; however our proactive efforts will enable us to maintain revenue growth and margins.

Internet

Across the consumer and SMB markets, competitors continue to focus on speed and price while attempting to evolve their offerings with additional value-add services. The continued aggressive competition for Internet customers has positioned Atlantic Canadian prices among the lowest in North America. While high-speed penetration has surpassed dial-up, consumer high-speed penetration is less than the Canadian average, mainly because close to half of Atlantic Canadians live in rural areas.

Bundles

Consumers are increasingly seeking a provider who can meet all their information, communication and entertainment needs. Bundling services at a discount is an important selling feature as all competitors, including Aliant Telecom, vie to increase their total revenue per customer. In the consumer market, we are seeing the emergence of packages that combine information, communication and entertainment solutions. Such solutions combine aspects of local and long distance over wireline and wireless networks, Internet, television and additional related services and applications. In 2004, one major competitor in Atlantic Canada created a new partnership to increase the number of services in its "bundled solutions". In the business market, we see a new focus on integrated ICT solutions. The growing prevalence of packaged offerings increases the potential revenue loss associated with the loss of each customer but also represents a greater opportunity to enable customer retention.

INFORMATION TECHNOLOGY

The business of the Information Technology segment is carried out through our 100% interest in xwave. xwave provides end-to-end IT services that range from consulting and engineering through to infrastructure management and product fulfillment. We serve clients in several geographic markets through offices in Canada, the United States and Europe and key industries including energy and telecommunications, and in select areas of the public sector such as defence, aerospace, healthcare, correctional services and education.

Reorganization

In 2004, we continued our restructuring program and emphasized our focus on our core business through the divestiture of two non-strategic businesses, an Internet help desk operation in New Brunswick and our IT services business in Western Canada, reducing related revenues and expenses but having a minimal impact on net income. We also acquired certain of the Atlantic Canada operations of Fujitsu Consulting (Canada) Inc. ("Fujitsu") on December 1, 2004, advancing our strategic agenda through the addition of service offerings and core competencies aligned closely with ours and concentrated in similar industries.

As well, we further aligned with the Telecommunications segment, particularly in sales, marketing, and corporate support operations. Further alignment in infrastructure services and enterprise service management is planned for 2005. These changes will allow us to put a "single face" in front of the customer and provide integrated ICT solutions.

Products and Services

Information technology generates service and fulfilment revenues. IT services revenue is earned through systems integration, software engineering, infrastructure services and other IT consulting. Fulfillment revenue is generated through the sale of computer hardware, accessories and packaged software.

We sell our products and services through approximately 100 direct sales representatives and we offer clients a broad delivery capability in meeting end-to-end IT requirements. Through teams of IT professionals, we plan, design, build and operate IT solutions for our customers that span both corporate and operational systems and fulfill all infrastructure needs. We provide both products and services to the various business units within the Aliant group of companies and this represented 31.0% of the Information Technology segment's total revenues in 2004 (2003 - 30.1%).

By leveraging xwave's expertise, knowledge and abilities, we expect to strengthen our position in the market and to contribute to our future growth and the Atlantic Canadian economy.

Specialized Skill and Knowledge

The ICT growth and transformation strategy is driving an increased requirement for professional services resources with business change capability. More senior project management, solution architecture and change management consulting skills are needed in order to continue moving up the value chain as we conceptualize, propose and deliver ICT based business change solutions. The labour market is becoming more competitive in all of these areas and demand is outstripping supply. In this regard the acquisition of Fujitsu's Atlantic operations has helped, but more recruitment is anticipated for these roles.

More consistent delivery methods will also require sustained commitment to development of skills associated with tools such as "rational unified process", IBM's software development platform. Technology based skill sets in support of Microsoft.net™ and other leading application development tools are also needed to maintain a leadership position in the ICT market. Employee development efforts are also underway to address these areas.

Competitive Conditions

There was some improvement in xwave's competitive position during 2004, which largely reflected greater stability within xwave following the restructuring of the business completed in the latter half of 2003. The public sector market for IT services remains weak, which has impacted growth of our federal government business, although xwave has secured significant contract wins in the aerospace and defence sectors, both domestically and abroad. xwave also made investments during the year in a near shore sales force focused on leveraging domestic products and solutions into U.S. markets achieving recent success in the public safety and corrections sector.

In 2005, IT will continue to be a very aggressive and competitive market. The moderate world-wide growth that is expected in 2005 will continue to exert pricing pressures. Clients will demand innovative solutions that respond to their business needs and return operational and financial efficiencies.

Cycles

For the IT fulfillment business, the first quarter of the year is historically the strongest as a result of government fiscal year-end spending, although this effect has been somewhat lessened in recent years. Service revenues are contract based and fluctuate in accordance with the size and number of outstanding contracts. Third quarters are typically adversely impacted by client slowdowns during the summer vacation period.

Changes to contracts and new contracts

During 2004, xwave experienced significant change order activity within existing contracts and we also initiated new projects under contracts with the City of Sudbury, Newfoundland and Labrador Hydro, the State of Maine, the Commonwealth of Virginia, Bell Canada and Airbus Deutschland. On February 25, 2005 xwave announced a contract for the design, provision and long-term support of the Integrated Information Environment (IIE) for Canada's Maritime Helicopter Project (MHP). This 20-year contract,

which will replace aging Sea Kings with 28 Sikorsky CH-148 Cyclone helicopters, is valued at approximately \$200 million and will employ 50 high-tech specialists in Nova Scotia. Renewed and new contracts will both contribute to sustaining and growing future revenues.

RISK FACTORS

Management is confident about our long-term prospects, but we recognize that we are exposed to a number of risks in the normal course of business that could have a negative effect on our financial condition or results of operations. The risks noted are outlined in order of seriousness, but may not be exhaustive as there may be other risks of which we are currently unaware or that we presently consider insignificant to our consolidated operations.

Ability to achieve strategies and plans

We plan to achieve our business objectives in 2005 through the performance of key strategic initiatives under our strategy of growth and transformation. These initiatives are fully discussed in Management's Discussion and Analysis for the year ended December 31, 2004.

These initiatives will have a wide-reaching impact, transforming our customer interactions, our internal processes, our network and our people. If we are unable to implement these initiatives on a timely basis or achieve the desired effect, we may be unable to meet our business objectives. As a result, our financial performance, including our growth prospects, could be negatively impacted.

Economic environment

Changes in general economic conditions, customer confidence and spending affect the demand for, and prices of, our products and services. In particular, a downturn in general economic conditions could lead to:

- lower than anticipated demand for IT services and products and integrated ICT solutions;
- lower than expected growth in data revenue, because of softer demand from enterprises and wholesale customers;
- lower than anticipated long distance and wireless revenues due to decreased usage; and
- higher than anticipated bad debt expense due to increased credit risk.

The existence of these conditions or the emergence of new conditions could reduce revenues or increase costs, negatively impacting results. We constantly monitor economic conditions to enable us to respond by implementing strategies to mitigate risks or adjusting assumptions used in recording the effects of these risks on our results.

Competition

Competitive conditions are constantly changing and we expect increased competition in the future. We have strategies in place to mitigate the risk of competition that involve deepening customer relationships, enhancing our services and packages to create compelling value, improving our cost structure to enable greater price competitiveness and expanding our IP network and our capabilities to provide broader access and innovative solutions. Competition, and particularly changes in the competitive landscape, can place these strategies at risk, and as such might have a negative impact on future revenue growth and profitability. In recognition of this, we constantly monitor our marketplace and respond accordingly to ensure we maintain our leadership position.

Reliance on systems

We rely on complex business and administrative systems to enable us to provide services to customers, manage customer relationships, issue invoices, manage inventory and support many other vital activities. These systems are made up of many integrated parts consisting of cable, equipment, buildings and towers, IT equipment, IT software and the related data. Our operations depend on how well we protect these components against damage from fire, natural disaster, power loss, hacking, computer viruses, disabling devices, deliberate acts of vandalism, acts of war or terrorism and other events. Any of these events could cause interruptions or shut down of our operations. Our systems are connected with the systems of other telecommunications carriers, and we rely on them to deliver some of our services. Any of the events mentioned previously, as well as strikes or other work disruptions, bankruptcies, technical difficulties or other events affecting the networks of these other carriers, could hurt our business, including our customer relationships and operating results.

Changing technology

We operate in an industry that experiences constant change, driven by rapid advances in technology, evolving industry standards, customer demands and short product life cycles. Our success is dependent on our ability to anticipate and respond to these changes in order to effectively deliver new services and technologies to our customers.

There is a risk associated with adopting new technologies to serve our business needs. New technologies may have shorter than anticipated product life cycles due to evolving standards or sudden advances in the development of competing products or services. This may result in increased re-engineering costs to incorporate new technology and may cause current products or services to become unmarketable or could cause prices to fall, resulting in a negative financial impact.

We are continuing the evolution of our network from a circuit-based technology infrastructure to an IP infrastructure. This evolution enables the development of enhanced services for our customers through the integration of voice, data and video. This integration plays a significant role in increasing operating and capital efficiency. In some cases, significant investments need to be made before it can be determined if the new services will be successful in the marketplace. There is no assurance that customers will adopt these new services or migrate from existing services in a reasonable period of time.

The adoption of new IP-based services may be impacted by the customer perception of the security related to IP networks. There are no assurances that solutions will be available to allow service providers to totally defend customers against all forms of computer viruses and attacks.

We are responding to the fast-pace of technological change by embracing new service development with strategic partners, accelerating new service introduction and developing an integrated growth plan to remain a next generation services provider. The success of new products is impacted by a number of factors, not all of which are under our control. Considerable effort is expended to ensure we correctly interpret, predict and respond to changes in technology, the regulatory environment, partner relationships and customer demand. However, we are not immune to sudden or unanticipated changes in any of these areas. This may result in the failure of new services and products to meet expectations and result in lower than anticipated net income.

Regulation

The business of our primary Telecommunications company, Aliant Telecom, is affected by decisions made by the CRTC. While the CRTC has taken steps to forbear from regulating prices for services offered in some competitive markets, such as long distance, wireless and some data services, they continue to ensure that there is a competitive Canadian environment for telecommunications services through continued regulation of certain services offered by incumbent local exchange carriers ("ILEC"),

like Aliant Telecom. In past years, our profitability has been negatively impacted by regulatory changes concerning the rates charged for price-regulated services, the contribution regime and service bundling. The outcome of future regulatory reviews could have an impact on our ability to compete effectively and our future revenues and costs.

The CRTC is currently reviewing a number of items that could significantly impact us. These include promotions and win-back restrictions applicable to ILECs, new floor price rules for ILECs' price-regulated services, regulation of VoIP services, and the deferral account mechanism. Future hearings are also expected in response to our application for forbearance from price regulation of certain local services as well as a proceeding to review the regulatory regime that will be effective for the third price cap period beginning in 2006.

Overall, we are engaging the CRTC in an effort to secure a more balanced regulatory environment and will continue to do so with a view of moving away from the current regulatory regime, which effectively subsidizes competitors and limits customer choice, toward a regulatory framework more conducive to fair competition. We welcomed the federal government's February 23, 2005 announcement of a review of Canada's telecommunications policy and regulatory framework. We will participate fully in the review process with a view to assisting in the achievement of the government's objective of promoting a vibrant and internally competitive telecommunications sector to the benefit of consumers and industry.

Regulatory requirements can negatively affect us and our customers

While the prices of telecommunications services offered by CLECs are free from rate regulation, many of our local and other telephone service rates continue to be regulated by the CRTC. Any change in the regulations governing these services can potentially impact us. The CRTC Price Cap decision of May 2002, which extends through May 2006, set the upper limits on the prices for our price-regulated local and other telephone services. The price cap mechanism and increasing local competition in our major markets are constraining factors in our ability to grow local service revenues. In addition, CRTC-imposed restrictions on ILECs' bundled services and marketing activities negatively affect our ability to respond to customers' expectations and thus, negatively affect our revenues.

Restrictions on ILEC promotions and win-back activities

It is apparent that the degree of regulation on our local service offerings is increasing. In 2003, the CRTC suspended any further approval of tariffs for win-back of customers and other types of promotions in the local wireline market. Then, in the first quarter of 2004, in its interim determination regarding a competitor's application, the Commission extended the previous three-month no-contact restriction to twelve months. The no-contact restriction prevents the ILECs from attempting to win-back residential customers who have switched to a competitor. The extension of the length of time the restriction applies will negatively impact our ability to provide the affected customers with choice of service provider. Together with other ILECs, we provided evidence and argument to the CRTC as to why such restrictions should not exist and why they were contrary to the public interest. A final CRTC determination on these and related issues is expected in 2005.

Price floors

During 2004, the CRTC conducted a proceeding regarding proposed changes to how floor prices would be determined for the regulated services of ILECs, how ILEC service bundles could be priced and how ILEC volume and term contracts could be developed. Should the CRTC ultimately rule to increase the floor prices of our regulated services and bundles, it would make our prices for such services less attractive than those of our competitors. Furthermore, if the CRTC alters the rules on volume and term contracts, it could make it more difficult for us to provide competitive pricing proposals to tenders issued by large customers. An increase in price floors may also undermine the global competitiveness of Canadian-based businesses.

The submissions by parties in this proceeding were completed during 2004. The ILECs, consumer groups and business customer groups opposed any new restrictions while competitors supported the CRTC's proposed restrictions on the ILECs or requested stronger measures. Any new restrictions on the floor prices for regulated services could limit our ability to satisfy customer requirements and could negatively affect our financial performance. A decision is expected in 2005.

Regulation of VoIP services

During the year, the CRTC conducted a proceeding concerning the regulatory framework for voice communications using Internet Protocol. The CRTC indicated that it supports imposing rules for some VoIP services, similar to those that currently apply to traditional local phone services. During the proceeding, together with Bell Canada, SaskTel and Telebec, we urged the CRTC to refrain from regulating prices for VoIP services and allow all VoIP service providers to compete for customers according to the same rules. There is a risk that the CRTC may rule contrary to our position and create an environment in which we are subject to price-regulation while competitors are not. This could negatively impact our future revenue potential.

Rates for services provided to competitors

There are a number of CRTC proceedings underway reviewing the cost-based rates for certain services provided to competitors. If the CRTC approves final rates that are significantly lower than current rates, our revenues and competitive position could be negatively affected. Competitors would be able to obtain underlying facilities at lower rates than would otherwise be available and this would lower their operating costs and improve their competitive position.

In addition, during 2004, some competitors requested that the CRTC expand the list of services on which competitors receive preferential pricing to include certain inter-exchange services in our operating territory. We responded to these requests by demonstrating to the CRTC why such treatment is inappropriate and inconsistent with the goal of establishing economically sound and sustainable competition. There is a risk that the CRTC may approve the competitors' request, in whole or in part, and this could have a negative effect on us, including reduced revenues from competitors as well as retail service price cross-impacts.

Competitor Digital Network Service

The CRTC released Decision 2005-6 on February 3, 2005, regarding Competitor Digital Network (CDN) services. This is a follow-up to the 2002 Price Cap Decision which established interim digital network access prices. This decision now establishes how ILECs are to provide digital network services to their competitors. The CRTC decided that all digital network accesses used by competitors, other than for resale, are CDN services and expanded the scope of CDN services to include other non-access services. The CRTC decided that some CDN services should not be priced as essential facilities but should include "appropriate mark-ups" to encourage competitors to construct their own facilities.

As a result of this decision our competitors will now pay much less for some of our services. Some pricing changes are retroactive while others will only apply going forward. The negative impact that this will have on our revenues in 2005 is estimated to be in the range of \$5 to \$6 million. The revenue reductions will be applied against our deferral account. We must file the associated estimated drawdown from our deferral account with the CRTC.

Deferral account

In 2004, the CRTC initiated a public proceeding to review the amounts in the ILECs' deferral accounts and to determine how to dispose of any of these amounts. On January 28, 2005, we filed a proposal for the disposition of amounts in the deferral account, which included: funding of rate reductions in response to competitive pressures, recovery of funds used to deploy telecommunications devices for

the deaf for payphones pursuant to a CRTC directive, funding E9-1-1 enhancements in Atlantic Canada, and recovery of a number of costs and lost revenue resulting from events that were beyond our control.

In 2004 and in March 2005, the CRTC issued decisions on some of the items that affect the amount in our deferral account. We expect that the deferral account proceeding will continue throughout 2005. We have not recognized the deferral account as a liability in our financial statements, but a liability should one arise will be charged to operating income or capital investments, as appropriate. We estimate the deferral account balance could be between \$3 million and \$37 million. For additional information on the deferral account, refer to note 24 of our consolidated financial statements for the year ended December 31, 2004.

Local services forbearance application

On April 7, 2004, we filed a forbearance application with the CRTC requesting them to stop regulating local residential phone service within certain areas of Nova Scotia and Prince Edward Island where there is significant local residential competition. A copy of this filing entitled "Forbearance application for residential wireline local services in specified exchanges" can be found at www.aliant.ca.

The CRTC's Three-Year Work Plan for the years 2004 to 2007 indicates that the CRTC expects to address local forbearance during the April 2005 to March 2006 time frame. If the CRTC ultimately denies Aliant Telecom's application, we expect to experience continued market share degradation, as our ability to compete will continue to be hindered.

In addition to the forbearance request, our April 7, 2004 application also requested that the CRTC provide us with immediate exemption, in specified geographic areas, from several past CRTC decisions that negatively affect customers in competitive areas, including:

- suspension of the prohibition on promotional offers to local customers and on waiving service charges for customers who choose to return to us for local service;
- removal of the twelve month period in which we are not allowed to contact customers who have left our local service to invite them to return to us; and
- reinstatement of our ability to file proposed promotions in confidence with the CRTC, such that our competitors would not have advance notice of our special promotional offers.

During April and May 2004, the CRTC requested and received ILEC, competitor and customer group comments on whether our request for expedited relief should be dealt with by the Commission in an expedited process separate from the forbearance process.

In an August 2004 determination, the CRTC denied our request for a separate expedited proceeding and indicated that our request for relief from the above identified restrictions will be considered as part of a proceeding in which our request for forbearance for local service will also be considered.

Planned proceeding to review regime for third price cap period

The second price cap period, under the CRTC Price Cap Decision of May 2002, is expected to end in June 2006. Under the price cap regime, the prices for certain ILEC services were capped at an index calculated using a target productivity factor and an inflation measure. During years where inflation was lower than the target productivity factor, the ILECs were required to reduce certain retail prices.

It is expected that the CRTC will schedule a proceeding to review this and other pricing mechanisms. During previous price cap review proceedings, the ILECs, competitors and other interested parties have

made extensive proposals regarding many aspects of the regulatory regime that apply to ILECs. These wide-ranging reviews can lead to CRTC decisions that can greatly affect customers, competitors and us.

Legal contingencies and changes in laws

We review all legal proceedings and make an assessment of the likelihood of a negative outcome and the estimated impact. Losses are accrued when a potential loss is deemed probable and the impact can be reasonably estimated. However, pending or future litigation could still have a material and negative effect on our results of operations, cash flows and financial position in the period in which the judgment or settlement occurs.

In addition, the adoption of new laws, changes in laws or changes in their interpretation, including changes in tax laws or rates, could materially or negatively affect our results of operations, cash flows and financial position.

Capital management risks

The financial transactions we participate in may expose us to credit, currency, interest rate and financial instrument risks. Periodically, we use interest rate swaps and swaptions, forward contracts and forward rate agreements to manage our exposure to interest rate risk and foreign currency risk associated with our long-term debt or firm commitments. The terms of these derivative contracts match the terms associated with the underlying long-term debt or other hedged obligation. These contracts are generally used to reduce risks in financing costs and to diversify our access to capital markets.

Credit risk

We are exposed to credit risk with respect to accounts receivable from customers, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis.

Currency exposures

In order to reduce our exposure to foreign currency risk on material contracts denominated in foreign currency, we use forward rate contracts or similar hedging arrangements. At December 31, 2004, we had contracts outstanding to sell 1.4 million Euro in 2005 at a rate of 1.6415 Canadian dollars per one Euro (December 31, 2003 - \$nil).

Interest rate exposures

Our long-term debt consists primarily of fixed interest rate financing. We have in place an interest rate swap agreement that involves us exchanging our underlying fixed interest rate on a notional \$100 million of long-term debt for a floating interest rate. The foregoing results in approximately 10.9% of our aggregate debt being exposed to short-term fluctuations in interest rates.

Post retirement benefits

We provide pension plans and non-pension post employment benefits to qualified employees. These include defined benefit ("DB") pension plans, defined contribution ("DC") pension plans, retirement savings plans and OPEB plans, such as life insurance and health care plans. Our DB pension plans require actuarial valuations at least every three years to determine annual funding requirements. Low investment returns from the years 2001 and 2002, combined with steadily declining interest rates, which are used to value the liabilities associated with these plans, have contributed to a significant increase in the net deficits in these plans.

Based on valuations as of December 31, 2003 and estimates of additional funding requirements resulting from the plan amendments made in 2004, required funding for 2005 is estimated to be in the range of \$70 to \$80 million. This estimate is subject to change, as we remain exposed to general future valuation risk. Actuarial valuations will be required as of December 31, 2004, for all of our DB pension plans, and required funding levels for 2005 and beyond will change as a result of these updated actuarial valuations. The impact of recent plan amendments will result in increased annual contribution requirements. Past service benefits and plan enhancements stipulated in the new collective agreement, pension enhancements offered to non-unionized employees and the increased pension obligation arising from the ERIP will all have a significant effect on future funding requirements. In light of these factors, we made an additional voluntary cash injection of \$60 million in February 2005. If the return on plan assets, interest on the obligation, or actual experience of the plans are better or worse than initially anticipated, the valuations could result in either lower or higher minimum required contributions.

In 2005, we will also be reviewing our projections for growth in our OPEB liability given the changing demographics of the workforce and the complement of retirees resulting from acceptance of the October 2004 ERIP offer.

Corporate structure

Aliant Inc. is a holding company and does not carry on any significant operations and has no major sources of income or assets, other than interest in our subsidiaries, including our partnership interest in a joint venture, Aliant ActiMedia. Our financial performance and our ability to service our debt and pay dividends to our shareholders are dependent on the dividends and other distributions we receive from our interest in our subsidiaries and joint venture.

Dependence on the Telecommunications segment

Our financial performance is dependent on the performance of our subsidiaries and partnership, in particular the performance of those interests that constitute our Telecommunications segment. Therefore, the risks that impact this segment are more likely to have a significant impact on the financial condition, results of operations and business of our company as a whole.

Stock market volatility

Stock markets are generally subject to significant volatility due to such factors as fluctuating interest rates, economic conditions and political uncertainty. This market volatility influences the market price and trading volumes of the shares of many companies. In particular, the shares of some telecommunications companies have been experiencing price volatility due to industry-specific issues such as competition, mergers and acquisitions activity, the debate over the merit of conversion to an income trust structure and regulatory developments. Differences between our actual or anticipated financial results and the published expectations of financial analysts may also contribute to volatility in our common shares. A major decline in the capital markets in general, or an adjustment in the market price or trading volumes of our common shares or other securities, may materially and negatively impact our ability to raise capital, issue debt, retain employees or make future strategic acquisitions or joint ventures.

DIVIDEND POLICY

We pay dividends, as approved by the board of directors, based upon our earnings level. Dividends are usually paid at the end of March, June, September and December. We paid a dividend at the quarterly rate of \$0.225 per common share (\$0.90 per annum) from 1999 until the third quarter of 2002. Our quarterly dividends paid per common share for the last 3 years are disclosed in the table below:

Historical Quarterly Dividends

Year	Q1	Q2	Q3	Q4
2004	\$ 0.275	\$ 0.275	\$ 0.275	\$ 0.275
2003	\$ 0.250	\$ 0.275	\$ 0.275	\$ 0.275
2002	\$ 0.225	\$ 0.225	\$ 0.250	\$ 0.250

On January 26, 2005, the dividend rate was raised again through a declared dividend of \$0.295 (\$1.18 per share per annum) per common share, payable on March 31, 2005, to shareholders of record on March 15, 2005.

The series 2 preference shareholders are entitled to a fixed cumulative preferential cash dividend of \$1.3625 per share per annum, if, as and when declared by the Aliant board of directors, payable quarterly on the last day of March, June, September and December in each year. The fixed dividend on the series 2 shares will be reset every five years starting on June 30, 2006, to a rate that is not less than 80% of the five-year Government of Canada bond yield. On January 26, 2005, our board declared a preferred share dividend of \$0.340625 per preferred share payable on March 31, 2005 to shareholders of record on March 15, 2005. A dividend of \$0.340625 per preferred share has been paid quarterly since inception.

DESCRIPTION OF CAPITAL STRUCTURE

GENERAL DESCRIPTION OF THE CAPITAL STRUCTURE

Our capital structure includes an unlimited number of common shares and preference shares issuable in series and various debt obligations.

At December 31, 2004, we had operating lines of credit totalling \$562.0 million (2003 - \$557.0 million), \$350.0 million (2003 - \$350.0 million) of which is committed to support our commercial paper ("CP") program, \$150.0 million (2003 - \$150.0 million) in uncommitted operating lines and \$62.0 million (2003 - \$57.0 million) in operating lines of credit within certain of our subsidiaries. At the end of 2004, we had no balances outstanding under the CP program (2003 - \$nil) or uncommitted operating lines (2003 - \$nil) and \$0.8 million (2003 - \$4.5 million) outstanding on subsidiaries' operating loans. At December 31, 2004, there were letters of credit committed against subsidiaries operating lines of credit of \$6.1 million (2003 - \$6.9 million).

We had \$896.4 million (2003 - \$990.1 million) of long-term debt as at December 31, 2004. The foregoing was composed of \$185.0 million (2003 - \$185.0 million) of first mortgage bonds that are secured by our assets, \$700.0 million (2003 - \$800.0 million) of unsecured debentures and medium term notes ("MTNs"), \$4.5 million (2003 - \$4.7 million) of capital lease obligations and \$6.8 million of other subsidiary obligations (2003 - \$0.3 million).

Common Shares

We had 132,744,009 common shares issued and outstanding as of December 31, 2004. The holders of our common shares are entitled to receive dividends if, as and when declared by the board of Directors. Each common share entitles its holder to one vote at meetings of shareholders. In the event of a voluntary or involuntary liquidation, dissolution or winding-up, after payment of all outstanding debts and amounts payable in respect of shares ranking in priority to the common shares, our remaining assets available for distribution are to be distributed *pro rata* to the holders of the common shares. Holders of common shares have no conversion, subscription or pre-emptive rights.

On February 2, 2005 we announced that we had filed with the Toronto Stock Exchange ("TSX") a notice of intention to purchase, from time to time, up to 6,637,200 of our issued and outstanding common

shares through a Normal Course Issuer Bid ("NCIB"). Shares to be purchased represent approximately 5.0% of our total issued and outstanding common shares as of that date. We also obtained TSX approval to enable Bell Canada, Aliant's majority shareholder, to participate on a pro-rata basis in the NCIB to the extent that it decides to do so. Bell Canada's participation has been approved by its board of Directors. Under the NCIB Aliant is able to acquire, from time to time, its common shares for cash at the market price at a pace and in an amount which will be at our discretion, subject to the rules of the TSX. Our board of directors believes that such purchases are in our best interest and a desirable use of corporate funds. Purchases of shares under the NCIB will be made during the twelve month period commencing February 4, 2005. All shares purchased pursuant to the NCIB will be cancelled. Our shareholders can obtain a copy of the notice of intention without charge by contacting us.

Cumulative Redeemable Preference Shares

We had 7,000,000 series 2 preference shares issued and outstanding as of December 31, 2004, 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 our option on June 30, 2006, or on June 30 of each fifth year thereafter. Preference shareholders may convert their series 2 preference shares to series 3 shares on June 30, 2006, or on June 30 each fifth year thereafter, provided that we have not delivered a notice of redemption. The series 3 shares have terms that are substantially the same as the series 2 shares except that, if issued, will pay a floating adjustable dividend rate monthly.

Constraints

The *Telecommunications Act* of 1993 established foreign investment restrictions in the telecommunications industry. Section 16 of this Act requires that in order to be eligible to operate in Canada, a telecommunications common carrier must be a "Canadian-owned and controlled corporation," incorporated or continued under the laws of Canada. Subsection 16(3) of the Act requires that Canadians beneficially own, directly or indirectly, in the aggregate and otherwise than by way of security only, not less than 80% of the corporation's voting shares issued and outstanding.

In 1994, the Government of Canada promulgated the Canadian Telecommunications Common Carrier Ownership and Control Regulations, which set the minimum Canadian ownership level for ownership at the holding company level at 66 2/3% of voting shares. Aliant, as the publicly traded holding company owning Aliant Telecom, maintains our foreign ownership limits within this constraint.

RATINGS

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities.

Short-term ratings are meant to give an indication of the risk that a borrower will not fulfill its near-term debt obligations in a timely manner. Dominion Bond Rating Service ("DBRS") provides ratings on short-term debt, including CP, ranging from "R-1", which represents prime credit quality, to "R-3", speculative. Similarly, Standard & Poor's ("S&P") ratings range from a high of "A-1" to a low of "C".

Long-term debt ratings are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both interest and principal commitments. The DBRS long-term debt rating scale ranges from "AAA", which represents highest credit quality, to "D", in arrears. Similarly, S&P ratings range from a high of "AAA" to a low of "D".

Preferred share ratings are meant to give an indication of the risk that a borrower will not fulfill its full obligations in a timely manner, with respect to both dividend and principal commitments. DBRS provides ratings on preferred shares ranging from "Pfd-1", which represents superior credit quality, to "Pfd-5", speculative. Similarly, S&P ratings range from a high of "P-1" to a low of "P-5".

For DBRS and S&P, a designation of “high” or “low” and “plus” or “minus”, respectively, after a rating indicates an issuer’s relative strength within the rating category. The lack of one of these designations indicates a rating that is essentially in the middle of the category.

Our solid financial position and stable outlook were affirmed in 2004, as indicated in the accompanying table, by credit ratings issued from S&P and DBRS. Our ratings have remained consistent throughout 2003 and 2004, except for S&P’s preferred share rating, which moved from P-2 with a stable outlook to P-2 (high) with a stable outlook in the second quarter of 2004.

Credit ratings	DBRS	S&P
Aliant Inc.		
Corporate credit rating	A (low) stable	A stable
Commercial paper	R-1 (low) stable	A-1 stable
Cumulative Redeemable Preferred Shares	Pfd-2 (low) stable	P-2 (high) stable
Aliant Telecom		
First mortgage bonds	A stable	A+ stable
Debentures and MTNs	A stable	A stable

The “A” rating range from DBRS is considered satisfactory credit quality. While the protection of principal and interest is substantial, these entities are considered more susceptible to adverse changes in financial and economic conditions and are more cyclical biased than higher rated companies. For S&P, an “A” rating range represents a strong capacity to meet financial commitments, but is more vulnerable to a difficult economic environment than higher ranked companies.

Short term debt rated R-1 (low) by DBRS is considered satisfactory credit quality. The overall strength and outlook for key liquidity, debt and profitability ratios is not normally as favourable as with higher rating categories, but these considerations are still respectable. Any qualifying negative factors which exist are considered manageable, and the entity is normally of sufficient size to have some influence in its industry. Short-term obligations rated “A-1” by S&P reflect a strong capacity for the obligor to meet its financial commitment on the obligation.

Preferred shares rated “Pfd-2” and “P-2” are of satisfactory credit quality. Protection of dividends and principal is still substantial, but earnings, the balance sheet and coverage ratios are not as strong as Pfd-1 rated companies. Generally, these ratings correspond with companies whose senior bonds are rated in the “A” category.

The most recent rating report from DBRS highlights Aliant’s holding company structural subordination and our strong dependence on upstream cash flow from our principal subsidiary, Aliant Telecom, as challenges. As well, DBRS suggested there is a risk that we may invest in assets with long payback periods. We derive credit strength from Aliant Telecom.

With regard to Aliant Telecom, DBRS highlights the following challenges to Aliant Telecom’s current credit rating. Aliant Telecom lacks size relative to other North American telecommunications companies, with only 1.5 million network access subscribers. The foregoing is related to the fact Aliant Telecom operates in Atlantic Canada with lower population and economic growth rates than the national average. These factors contribute to limited growth opportunities in Atlantic Canada. However, this limitation also acts as a major barrier to entry against new competition.

DBRS also noted that while technology changes rapidly, infrastructure enhancements are expensive to initiate. In the past five years, Aliant Telecom has invested heavily in broadband and wireless infrastructure, with no guarantee that these services will provide new revenue growth. Future investments may drive capital expenditure levels higher within the next five years. At that time, DBRS

remarked we lacked a long-term television solution to complete our current suite of communication services. Instead, our solution was to use satellite provider Bell ExpressVu to offer video services.

Meanwhile, the most recent rating rationale from S&P discusses additional risks. We have experienced some erosion of residential subscribers, primarily to an incumbent cable operator in the Nova Scotia and Prince Edward Island markets. We have largely offset declines in local revenues as well as marginal declines in long distance revenues through growth in wireless and high-speed Internet revenues. A large portion of our revenue comes from local and long distance voice services, which may come under increased pressure in future from new entrants offering VoIP. Although VoIP is not expected to impact results over the near term, the long-term effects could be more significant. To maintain our ratings, we must continue offsetting declines in these areas through growth in wireless and Internet services, and maintain a strong financial profile.

Additionally, S&P expects that we will continue to have modest funding requirements for post retirement benefits for the next several years. However, the funding requirements are manageable and should not have a material effect on our cash flows.

The credit ratings accorded to our securities by S&P and DBRS are not recommendations to purchase, hold or sell the securities inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that the foregoing ratings will remain in effect for any given period of time or that the ratings will not be withdrawn or revised entirely by S&P or DBRS at any time in the future if, in the judgment of either or both, circumstances so warrant.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

Our common and preferred shares are publicly traded on the TSX under the symbol "AIT" and "AIT.PR.A", respectively. Monthly price ranges and trading volume for the securities for 2004 are illustrated below.

Monthly common share price range and volume

	Price		Avg. Volume (000's shares)
	High (\$)	Low (\$)	
January	34.70	30.75	124.28
February	32.90	31.30	135.16
March	32.80	30.01	86.56
April	31.49	28.05	80.84
May	28.85	26.61	59.28
June	28.07	26.14	91.90
July	27.61	25.71	77.10
August	26.69	25.00	79.39
September	27.50	25.60	89.69
October	27.35	25.30	91.92
November	27.25	25.60	93.41
December	28.00	26.00	70.39

Monthly preferred share price range and volume

	Price		Avg. Volume (000's shares)
	High (\$)	Low (\$)	
January	27.15	26.35	5.06
February	27.40	26.50	1.18
March	27.00	26.06	2.07
April	26.69	25.01	3.99
May	26.35	25.35	5.41
June	26.70	25.05	2.66
July	26.39	25.73	1.23
August	26.39	25.75	1.66
September	26.40	25.60	2.52
October	27.24	25.60	1.82
November	27.00	26.35	3.29
December	26.75	26.20	5.02

Our CP trades publicly in the Canadian money market; however we currently have no CP issued.

Aliant Telecom's common shares are all owned by Aliant and are not publicly traded. Aliant Telecom's debentures, MTNs and first mortgage bonds were publicly issued and trade in the public bond market.

DIRECTORS AND OFFICERS

NAME, ADDRESS, OCCUPATION AND SECURITY HOLDING

On February 21, 2005, our directors and executive officers as a group beneficially owned, directly or indirectly, or exercised control or direction over approximately 87,677 shares of Aliant Inc. representing about 0.07% of the outstanding shares.

Directors

Our directors are listed in the accompanying table. All directors hold office for one term at a time. The term of office is the time period between the annual meetings of shareholders of Aliant. We have the following committees: 1) Audit; 2) Corporate governance; 3) Human resources and compensation; 4) Investment; 5) Defined benefit pension investment; and 6) Defined contribution pension investment. We do not have an executive committee of the board of directors. The name, board position, committee membership, province or state of residence and principal occupation for each of our directors as at March 22, 2005, appears below:

Name, position and committees	Principal Occupation	Province or State and Country	Director since
Miller H. Ayre, C.M. ^{2,3} Corporate Governance Committee Chair	Publisher The Telegram (Newspapers)	NL Canada	September 29, 1999
J. Charles Caty ^{3,4} Human Resources & Compensation Committee Chair	Corporate Director	ON Canada	September 29, 1999
Robert P. Dexter, Q.C. ^{1,2,4} Investment Committee Chair	Chairman and Chief Executive Officer Maritime Travel Inc.	NS Canada	September 29, 1999
Jay Forbes, F.C.A.	President and Chief Executive Officer Aliant Inc.	NB Canada	April 19, 2002
Lawson Hunter ⁴	Executive Vice President BCE Inc. (Telecommunications)	ON Canada	June 28, 2004
R. Terry Mosey ^{5,6}	Executive Vice President Bell Canada (Telecommunications)	ON Canada	December 15, 2003
Dr. Margot Northey ³ Edward Reevey, F.C.A. ^{1,5,6} Audit Committee Chair, Defined Benefit Pension Committee Chair & Defined Contribution Pension Committee Chair	Corporate Director Chairman and Chief Executive Officer, Addee Developments Limited and Eedda Capital Inc. (Private holding corporations)	BC Canada NB Canada	April 20, 2001 September 29, 1999
Karen Sheriff ²	President - Small and Medium Business Bell Canada Inc. (Telecommunications)	ON Canada	June 28, 2004
Catherine Tait ^{1,2}	President Duopoly, Inc. (Film and Television)	NY United States	April 20, 2001
Stephen G. Wetmore, C.A. ³	Group President - National Markets, Bell Canada and Executive Vice President, BCE Inc. (Telecommunications)	ON Canada	September 29, 1999
Charles W. White Q.C. ^{1,2,3,4,5,6} Chairman of the Board	Lawyer White Ottenheimer & Baker (Law firm)	NL Canada	September 29, 1999
Victor L. Young, O.C. ^{1,2}	Corporate Director	NL Canada	April 19, 2002

With the exception of the following individuals, all of the directors have been employed in the designated principal occupation for the preceding five years or have been engaged in different executive functions with their current employer or with one of its affiliates:

Dr. Northey was Dean of Queen’s University School of Business until her retirement in June of 2002.

Mr. Hunter is executive vice president of BCE. Prior to this, he was a partner with the law firm Stikeman Elliott.

Ms. Sheriff is president, small and medium business with Bell Canada. She joined Bell Canada in May of 1999 as senior vice-president of product management and development and then took the position of chief marketing officer. Prior to joining Bell Canada, Ms. Sheriff was responsible for corporate marketing and branding at Ameritech Inc.

Ms. Tait is currently president of Duopoly, Inc., but was previously a communications and entertainment consultant and president and chief operating officer of Salter Street Films.

Mr. Young was chairman and chief executive officer of Fishery Products International Ltd. from November 1984 to May 2001.

For background information on Mr. Forbes please refer to the “Officers” section below.

Officers

The name, province of residence and principal occupation for each of our executive officers as at March 22, 2005, are as follows:

Name	Office of Aliant presently held	Province or State and Country
Jay Forbes, F.C.A.	President and Chief Executive Officer and Acting Chief Financial Officer	NB Canada
Frank Fagan	Executive Vice President and Chief Operating Officer	NL Canada
G. Reid Parker	Vice President and Treasurer	NB Canada
Frederick P. Crooks, Q.C.	Senior Vice President, General Counsel and Corporate Secretary	NS Canada
Paul Kent	Senior Vice President Aliant Enterprise and Business Solutions and Chief Operating Officer xwave	NS Canada
David Rathbun	Senior Vice President Corporate and Chief Human Resources Officer	NS Canada

The position of executive vice president and chief financial officer is vacant as at March 1, 2005. During 2004, this position was held by Barry Kydd, F.C.A. Mr. Kydd left Aliant to pursue other interests on February 10, 2005. During the process of recruiting a new chief financial officer, Jay Forbes will oversee the financial operations of Aliant. Prior to his appointment as president and chief executive officer, Mr. Forbes served as chief financial officer of the organization.

All of the officers of Aliant have held their present position or other executive positions with Aliant or one or more affiliated companies for the preceding five years with the exception of the following individuals:

Jay Forbes was appointed president and chief executive officer of Aliant in March 2002. He joined Aliant as executive vice president and chief financial officer of Aliant and Aliant Telecom on February 19, 2001 from his role as executive vice president, corporate resources and chief financial officer of

Oxford Properties Group Inc. Prior to this, he was chief financial officer and senior vice president of Emera Inc.

Frederick P. Crooks joined Aliant in the role of senior vice president, general counsel and corporate secretary in October 2003, prior to which he was a partner with the law firm Cox Hanson O'Reilly Matheson in Halifax since 1985.

Prior to his appointment as senior vice president on October 6, 2003, Mr. Kent was senior vice president and managing director for the Strategic Consulting Unit of Fujitsu. Prior to that role, he held increasingly senior positions at Fujitsu. He has also held IT roles in several government organizations.

LEGAL PROCEEDINGS

This section describes important legal proceedings that you should be aware of. While we cannot predict the final outcome of the claims and litigation described below or any other pending claims and litigation at March 22, 2005, management believes that the resolution of these claims and litigation will not have a material and negative effect on our consolidated financial position or results of operations. None of the claims and litigation described below currently seek from us payment of damages in an amount exceeding the threshold requiring disclosure in this AIF pursuant to Canadian securities laws.

Action by former New Brunswick Employees

On April 14, 2000, an action was commenced in the New Brunswick Court of Queens Bench against NBTel Inc. (now Aliant Telecom) by 132 former employees who took early retirement under a 1998 early retirement incentive program. The former employees seek unquantified general damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under a 1999 early retirement incentive program. Pleadings are closed, Affidavits of Documents have been prepared and Discovery of the Plaintiffs is complete. Discovery of Aliant Telecom's witnesses has not been completed. While the outcome of this matter is not determinable at this time, we believe we have strong defences and are vigorously contesting the claim.

Action by Exigen, Ltd.

On March 25, 2004, an action was commenced in the United States District Court, Northern District of California, against Aliant Telecom by Exigen Ltd. ("Exigen"). The action was subsequently amended in June 2004 to add Aliant Inc. as a defendant. The action stems from the sale of Connectivity Contact Centre Solutions Inc. to Exigen, the termination of certain commercial agreements and claims of interference with Exigen's commercial relations. In its formal Complaint, Exigen seeks US\$30 million in specified damages and other damages to be presented. A preliminary issue concerns whether Canada is the proper place to bring the action instead of California. Accordingly, we have started an action in New Brunswick against Exigen and its Canadian operating subsidiary seeking adjudication of many of these issues. Although it is not currently possible to determine the outcome of this matter, we believe we have strong defences and have accrued what is deemed by management to be adequate reserves.

Potential Saskatchewan Class Action

On August 9, 2004, a lawsuit was filed in the Saskatchewan Court of Queen's Bench against several Canadian wireless and cellular service providers, including Aliant Telecom. The suit is brought by several alleged customers or former customers of the defendants, who seek court permission to proceed by way of class action under the *Saskatchewan Class Actions Act*. The claim relates to certain system access fees that the defendants charge to their customers. In the claim, the plaintiffs allege, among other things, breach of contract, misrepresentation, negligence, collusion and breach of statutory obligations under the *Competition Act* (Canada) in relation to the system access fees, and seek unspecified damages, including punitive and exemplary damages. While the certification hearing

has been scheduled for May 2005, it is not currently known whether the proceeding will actually be certified as a class action. While the plaintiffs' counsel have indicated an intent to litigate this matter in Saskatchewan, during the fourth quarter of 2004 they also filed identical lawsuits in several other Provinces. While we feel we have strong defences to this claim, the outcome of this matter is not determinable at this time.

Canada Life

On October 19, 2004, Aliant Telecom was added as a third party in a lawsuit brought by the Canada Life Assurance Company ("Canada Life") in the Supreme Court of Nova Scotia against the Province of Nova Scotia. The claim arises from a 1999 Government Request for Proposal in which an Aliant Telecom predecessor corporation, Maritime Tel & Tel Limited, assisted the Province of Nova Scotia in setting up a wide area network system, and in obtaining lease financing for the related equipment acquisition. Upon completion of the project the original equipment lessor assigned its lease to Canada Life. The lease payments charged to the Province by Canada Life have been higher than those in the original quote, but the Province has paid the lower quoted rates. In July 2004, Canada Life sued the Province seeking additional payment based on the higher lease rate, and sought payment of arrears to April 2004 of approximately \$0.8 million, and accelerated lease payments for the unexpired lease terms of approximately \$23.2 million. The Province has made a third party claim against Aliant Telecom alleging that it acted as consultant to the Province and should provide indemnification. While the outcome of this matter is not determinable at this time, we feel we have strong defences to this claim.

TRANSFER AGENTS AND REGISTRARS

Aliant

Classes	Common Shares	Cumulative Redeemable Preference Shares
Series:	not applicable	Series 2
Transfer Agent and Registrar:	CIBC Mellon Trust Company	CIBC Mellon Trust Company
Register Location(s):	Halifax, NS	Toronto, ON
Transfer Location(s):	Halifax NS, Montreal PQ, Toronto ON, Winnipeg MB, Regina SK, Calgary AB, St. John's NL, Saint John NB, Charlottetown PE	Toronto, ON

Aliant Telecom

Classes	Medium Term Notes	Debentures	First Mortgage Bonds
Series:	Aliant Telecom: 6.65% Series 2 6.70% Series 3 6.80% Series 4 5.35% Series 5	Maritime Tel & Tel: 8.3% Series 2 9.7% Series 4 9.05% Series 5 NB Tel: 11.125% Series AA	Island Telecom: 10.60% Series T 11.15% Series U 9.77% Series V 8.76% Series W NewTel Communications: 10.75% Series T 11.40% Series V Maritime Tel & Tel: 10.45% Series AD
Transfer Agent and Registrar:	CIBC Mellon Trust Company	Computershare Trust Company of Canada	Computershare Trust Company of Canada
Register Location(s):	Halifax, NS	Halifax, NS	Halifax, NS

Transfer
Location(s):

Toronto, ON

Halifax, NS

Halifax, NS

MATERIAL CONTRACTS

Union Contracts

The negotiation process between Aliant Telecom and the Council of Atlantic Telecommunication Unions, representing approximately 66% of Aliant Telecom's employees, resulted in a new Collective Agreement being reached with an effective date of January 1, 2002, and an expiry date of December 31, 2007. The agreement was reached with the assistance of the Federal Mediation Services after a 147 day strike, with employees returning to work on September 20, 2004. The new Collective Agreement incorporates annual increases in base wages, wage alignment, pension enhancements and increased flexibility in workforce management in areas such as contracting out, workplace change and workforce reduction.

ADDITIONAL INFORMATION

Additional information including directors' and officers' remuneration and indebtedness, principal holders of our securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in our Information Circular for our most recent annual meeting of shareholders.

Additional financial information is available in our financial statements and Management's Discussion and Analysis as they appear in our Annual Report for the year ended December 31, 2004.

Additional information relating to our company, including the AIF as well as our annual and quarterly reports, news releases and other continuous disclosure documents, are filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and are available online at www.sedar.com.

In addition, quarterly reports, annual reports and supplementary information can be found under "financial reports" on our corporate website at www.aliant.ca.

FORWARD-LOOKING STATEMENTS

This AIF contains forward-looking statements related to our future financial condition and results of operations. These statements are based on current expectations and estimates about the markets in which we operate and management's beliefs and assumptions regarding these markets. In some cases, forward-looking statements may be identified by words such as "anticipate", "believe", "could", "expect", "plan", "seek", "may", "intend", "will" and similar expressions. These statements are subject to important risks and uncertainties, which are difficult to predict and assumptions which may prove to be inaccurate. Some of the factors which could cause results or events to differ materially from current expectations include but are not limited to: our ability to achieve our strategies and plans; general economic conditions; changes in pension valuations; changing technology; increased competition; and changing regulatory conditions or requirements. Some of these factors are largely beyond our control. Should any factor impact us in an unexpected manner, or should assumptions underlying the forward-looking statements prove incorrect, the results or events predicted in management's discussion and analysis might differ materially from actual results or events. Consequently, all of the forward-looking statements made in this document and the documents referred to within are qualified by these cautionary statements, and there can be no assurance that the results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences for us. Readers should not place undue reliance on any

forward-looking statements. Further, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or any other occurrence.

SCHEDULE 1: AUDIT COMMITTEE INFORMATION

The Audit Committee's Charter

The Aliant Audit Committee charter is available in the governance section of Aliant's website at www.aliant.ca and attached as Schedule 2 to this AIF.

Composition of the Audit Committee

The Audit Committee is composed of the following five members: Edward Reevey (chair), Robert Dexter, Catherine Tait, Charles White and Victor Young. Each member of the Audit Committee is an external and independent director and is financially literate. The responsibilities and duties of the Committee are set out in the Committee's charter. A copy of this charter is attached as Schedule 2 to this AIF.

Relevant Education and Experience

The following sets out the education and experience of each director relevant to the performance of his or her duties as a member of the Committee.

Edward Reevey, F.C.A., is chair of the Audit Committee. Mr. Reevey is chairman and CEO of Addee Developments Limited and Eedda Capital Inc. He received his B.Comm. from Dalhousie University and his C.A. designation while working with Clarkson Gordon. Mr. Reevey's past career included working with Clarkson Gordon & Co. in Montreal from 1965-1968 and H.R. Doane & Co. in Saint John from 1968 to 1970. He was President of Autotec Inc. from 1970 to 1994. Mr. Reevey was awarded the F.C.A. designation in 1998.

Robert Dexter, Q.C., holds a B.Comm. and a LL.B. from Dalhousie University. He is chairman and CEO of Maritime Travel Inc. He is also a Partner of the law firm Stewart McKelvey Stirling Scales.

Catherine Tait is president of Duopoly Inc. (film and television) based in New York. Ms. Tait holds a BA from the University of Toronto, an M.Sc. from Boston University and a D.E.A. from the University of Paris. From 1997 to 2001, Ms. Tait was president and COO of Salter Street Films, a vertically integrated entertainment company based in Canada. Prior to Salter Street Films, Ms. Tait was Executive Director of the Independent Feature Project in New York.

Charles W. White, Q.C. is a lawyer with White, Ottenheimer & Baker, Barristers and Solicitors with over 30 years of experience practicing principally in the corporate and commercial law area. Mr. White holds a B.Comm. from Memorial University of Newfoundland and Labrador and a LL.B. from Dalhousie University.

Victor L. Young, O.C. hold a B.Comm. from Memorial University of Newfoundland and Labrador and a M.B.A. from the University of Western Ontario. Mr. Young is a former chairman and CEO of Fishery Products International Limited. He also served as Deputy Minister of the Treasury Board and special advisor to the Premier of Newfoundland and Labrador, and was also CEO of Newfoundland and Labrador Hydro.

Pre-Approval Policies and Procedures

In 2004, Aliant adopted a Pre-Approval Policy for audit and non-audit services. In compliance with Multilateral Instrument 52-110, the Audit Committee of the board of directors is responsible for the appointment, compensation and oversight of the work of the external auditor. As part of this responsibility, the Audit Committee is required to provide specific or general pre-approval of any audit services. The Audit Committee is also required to provide specific pre-approval of any permissible non-

audit services performed by the external auditor in order to ensure that they do not impair the auditor's independence from the Corporation. Any services completed under the pre-approval guidelines must be reported to the Audit Committee at least quarterly for its review and final endorsement.

The key highlights of the Policy include:

- A quarterly review and approval of all services performed by the external auditors is required by the Audit Committee;
- Unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee;
- Any proposed services exceeding pre-approved levels will require specific approval by the Audit Committee; and
- Specific pre-approval will be required in relation to non-audit services provided by the external auditor.

External Auditor Service Fees (By Category)

Ernst & Young LLP has served as Aliant's auditing firm since April 1999. Fees payable for the years ended December 31, 2004 and 2003 are \$1.93 million and \$1.33 million, respectively and are detailed below.

	<u>2004</u>	<u>2003</u>
Audit fees	\$607,336	\$607,421
Audit-related fees	\$310,888	\$521,547
Tax Fees	\$1,011,411	\$196,058
Other Fees	\$0	\$0

Audit fees

These fees include professional services rendered by the external auditors for the review of the interim financial statements and statutory audits of the annual financial statements.

Audit-related fees

These fees include professional services that reasonably relate to the above services, including non-statutory audits, Sarbanes-Oxley Act initiatives, pension plan audits, consultations about financial accounting and reporting standards and French translation of quarterly and annual reports.

Tax fees

These fees include professional services for the attestation of compliance with our conflict of interest policy, tax compliance, tax advice, tax planning and advisory services.

SCHEDULE 2: TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

I. Purpose

The purpose of the Audit Committee (the "Committee") shall be to assist the board of directors in carrying out its responsibilities with respect to the integrity of the Corporation's financial reporting, adequacy of internal controls and appropriateness of accounting policies.

II. Composition and Term of Office

The Audit Committee shall consist of at least three (3) Directors. All members of the Audit Committee shall be "independent" and "financially literate" in accordance with MI 52-110. A quorum shall consist of not less than two (2) members of the Committee.

Based on recommendations of the Corporate Governance Committee, the Audit Committee shall be appointed by the board at the organization meeting of the board following the annual meeting of shareholders and each member of the Committee shall serve until the next annual meeting of shareholders. If a vacancy subsequently occurs, the chairman of the board may appoint a new member to serve until the next annual meeting. The board shall appoint the chair of the Audit Committee and the corporate secretary or her/his authorized representative shall serve as secretary for the Committee.

III. Frequency of Regular Meetings

Regular meetings of the Committee shall occur at least four (4) times a year. The regular meetings of the Committee shall be called by the secretary of the Committee so as to allow the Committee to review the annual and interim consolidated financial statements of the Corporation prior to approval of the statements by the board and prior to the release of the annual report or the interim reports to shareholders, as the case may be.

IV. Special Meetings

The chair or any two members of the Committee may call a special meeting of the Committee. The secretary shall provide written notice of such special meetings and such notice must be delivered to the members of the Committee not less than seven (7) days prior to the date of such meeting and shall state the purpose for which such meeting is being called. The chair or secretary of the Committee shall call a special meeting of the Committee if requested to do so by the external auditor.

V. Attendance of Others at Committee Meetings

The chairman of the board of directors, the CEO, the CFO, the secretary, the comptroller and the internal audit manager of the Corporation and the external auditor shall receive notice of all regular and special meetings of the Committee and all shall be entitled to attend such meetings subject to the right of the Committee to excuse any or all non-members of the Committee from the meeting or some part thereof. The CFO shall be required to attend all meetings unless excused. The external auditor shall be required to attend all meetings to approve quarterly financial materials unless excused. The Audit Committee shall meet privately with the external auditors without management present, at each regularly scheduled Audit Committee meeting.

VI. Objective and Responsibilities of the Committees

The objective of the Committee shall be to assist the board of directors in carrying out its responsibilities with respect to the integrity of the Corporation's financial reporting, adequacy of internal controls and appropriateness of accounting policies.

The Committee shall be responsible for:

- A. the review of all financial statements, MD&A and earnings press releases of the Corporation, which require the approval of the board of directors. Financial statements and MD&A to be reviewed by the Committee include:
 - (i) year-end audited and interim unaudited consolidated financial statements and MD&A; and
 - (ii) (ii) any other set of financial statements which will be released to shareholders, other security holders or regulatory agencies and/or which will form part, either directly or by reference, of any prospectus, offering circular, information circular, annual information form (AIF), or any legal filing.
- B. ensuring adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements (other than the Corporation's financial statements, MD&A and earnings press release) and must periodically assess the adequacy of those procedures.
- C. assuring that the financial statements of subsidiaries, upon which the financial statements of the Corporation are based, do not introduce any material uncertainty in the presentation of the Corporation's financial results and that the external auditors of these corporations have no reservations about the statements.

To this end, the Committee shall conduct such activities as:

- (i) periodically reviewing the financial statements of all subsidiaries; and
 - (ii) reviewing with the external auditors the results of their work with the external auditors of the subsidiary companies.
- D. the terms of the engagement and general oversight of the external auditor.

This will generally include:

- (i) the scope of the external audit, the audit plan and the extent to which the audit can be relied upon to detect internal control weaknesses, fraud or other illegal acts;
 - (ii) the review of the fees charged for these and other special audit services;
 - (iii) the pre-approval of non-audit services provided by the external auditors to the Corporation or its subsidiaries;
 - (iv) the general confirmation that the services provided are of good quality and that management have no reservations about the quality or cost of same; and
 - (v) the provision of recommendations to the board on the appointment and re-appointment or dismissal of the external auditor as well as compensation of the external auditors.
- E. the review and approval of the Corporation's hiring policies regarding employees and former employees of the present and former external auditors of the Corporation.
 - F. the scope of internal audit work being carried out in the Corporation.

The review will ascertain that the internal audit program is designed to detect any major areas of internal control weakness or any fraud or other illegal acts.

G. the nature of internal controls in major accounting and financial reporting systems.

The review will:

- (i) inquire as to major internal control weaknesses identified by the external and internal auditors and the effectiveness of management action taken to correct these problems;
- (ii) ensure that there are no unresolved issues between management and the external auditors that could affect the financial statements. To this end, the Committee will regularly meet privately with each of management, the internal auditor and the external auditors;
- (iii) include a specific review of controls to ensure compliance with financial covenants contained in trust deeds, prospectuses, security instruments or other significant financing agreements.

H. the accounting policies and practices.

I. the corporate code of ethics for senior financial executives as it relates to the integrity of financial reporting and to generally review controls to ensure compliance with the code (See Appendix N for detailed code).

J. establishing procedures for:

- (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters; and
- (ii) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

K. the expenses of the board of directors and officers of the Corporation who report directly to the board and their use of Corporation assets and to comment to the board on the appropriateness of these expenses.

L. the conflict of interest guidelines and the review of controls used to ensure compliance.

M. ensuring that any corporate governance matters, which are brought to the Committee, be also referred to the Corporate Governance Committee of the board.

N. performing an annual self-assessment to consider the effectiveness of the Committee, and possible ways of improving the functioning of the Committee.

VII. Reporting to the Board of Directors

The Committee shall report the results of its activities and its findings and its recommendations to the board of directors at the first meeting of the board following each Committee meeting.