

**ALiant INC.**

(Incorporated under the laws of Canada)

**CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**June 30, 2004**



**ALIAN T INC.**  
**Consolidated balance sheets**  
**(unaudited)**

<i>(thousands of dollars)</i>	Notes	As at June 30, 2004	As at December 31, 2003
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 306,693	\$ 365,330
Accounts receivable	2, 19	286,180	315,903
Inventory		20,332	21,177
Prepayments		45,774	25,871
Income tax receivable	3	61,715	23,423
Future income tax asset	3	141	-
		<b>720,835</b>	<b>751,704</b>
Capital investments	4	<b>1,942,299</b>	<b>2,013,522</b>
Other assets			
Deferred charges		95,944	92,932
Future income tax asset	3	4,325	12,891
Accrued benefit asset	5	170,344	163,440
Goodwill	6	31,804	31,804
		<b>302,417</b>	<b>301,067</b>
<b>Total assets</b>		<b>\$ 2,965,551</b>	<b>\$ 3,066,293</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Notes payable and bank advances	7	\$ 4,383	\$ 17,827
Payables and accruals	8, 19	181,993	238,332
Income tax payable	3	9,398	18,806
Future income tax liability	3	-	3,797
Long-term debt due within one year	9	101,781	101,535
		<b>297,555</b>	<b>380,297</b>
Long-term debt	9	888,829	888,524
Accrued benefit liability	5	164,704	159,156
Deferred credits		12,434	10,337
		<b>1,363,522</b>	<b>1,438,314</b>
Non-controlling interest	10	4,274	4,051
Shareholders' equity			
Capital stock	11	1,200,878	1,208,062
Retained earnings		396,877	415,866
		<b>1,597,755</b>	<b>1,623,928</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,965,551</b>	<b>\$ 3,066,293</b>

*See accompanying notes to the consolidated financial statements*

*Signed on behalf of the board of directors*

*Chairman:*

*Director:*

**ALIAN T INC.**  
**Consolidated statements of income**  
For the period ended June 30  
(unaudited)

<i>(thousands of dollars, except per share amounts)</i>	Notes	Three months		Six months	
		2004	2003	2004	2003
Operating revenues	12	\$ 525,584	\$ 517,277	\$ 1,030,026	\$ 1,018,166
Expenses					
Cost of operating revenues		69,182	64,568	143,677	148,004
Operating expenses		261,261	231,334	505,269	467,325
Depreciation		98,549	98,382	199,508	196,572
Restructuring charge	8	1,473	-	4,556	-
		<b>430,465</b>	<b>394,284</b>	<b>853,010</b>	<b>811,901</b>
Operating income		95,119	122,993	177,016	206,265
Other income (expenses)	13	2,106	(228)	5,116	(492)
Interest charges					
Interest on long-term debt		18,769	20,716	37,624	41,367
Other interest		(184)	225	183	517
		<b>18,585</b>	<b>20,941</b>	<b>37,807</b>	<b>41,884</b>
Income before underlisted items		78,640	101,824	144,325	163,889
Income taxes	3	28,212	40,614	52,751	65,286
Income before non-controlling interest		50,428	61,210	91,574	98,603
Non-controlling interest		340	(14)	806	(121)
<b>Net income from continuing operations</b>		<b>\$ 50,088</b>	<b>\$ 61,224</b>	<b>\$ 90,768</b>	<b>\$ 98,724</b>
<b>Net income from discontinued operations</b>	14	<b>\$ -</b>	<b>\$ 9,342</b>	<b>\$ -</b>	<b>\$ 10,730</b>
<b>Net income</b>		<b>\$ 50,088</b>	<b>\$ 70,566</b>	<b>\$ 90,768</b>	<b>\$ 109,454</b>
<b>Earnings per common share</b>	15				
Basic from continuing operations		\$ 0.36	\$ 0.42	\$ 0.65	\$ 0.67
Basic from discontinued operations		-	0.07	-	0.08
Basic		<b>\$ 0.36</b>	<b>\$ 0.49</b>	<b>\$ 0.65</b>	<b>\$ 0.75</b>
Diluted from continuing operations		\$ 0.36	\$ 0.42	\$ 0.65	\$ 0.67
Diluted from discontinued operations		-	0.07	-	0.08
Diluted		<b>\$ 0.36</b>	<b>\$ 0.49</b>	<b>\$ 0.65</b>	<b>\$ 0.75</b>

See accompanying notes to the consolidated financial statements

**ALIANT INC.**  
**Consolidated statements of retained earnings**  
**For the six months ended June 30**  
**(unaudited)**

<i>(thousands of dollars)</i>	<b>Note</b>	<b>2004</b>	<b>2003</b>
Retained earnings, beginning of period	\$	<b>415,866</b>	\$ 354,080
Net income		<b>90,768</b>	109,454
Preferred share dividends		<b>(4,769)</b>	(4,769)
Common share dividends		<b>(73,136)</b>	(72,852)
Excess of repurchase of common shares over stated value	11	<b>(31,852)</b>	-
<b>Retained earnings, end of period</b>	<b>\$</b>	<b>396,877</b>	<b>\$ 385,913</b>

*See accompanying notes to the consolidated financial statements*

**ALIAN T INC.**  
**Consolidated statements of cash flows**  
**For the period ended June 30**  
**(unaudited)**

<i>(thousands of dollars)</i>	Notes	Three months		Six months	
		2004	2003	2004	2003
Cash and cash equivalents from (used in) operations					
Net income from continuing operations		\$ 50,088	\$ 61,224	\$ 90,768	\$ 98,724
Add (deduct) non-cash items:					
Depreciation		98,549	98,382	199,508	196,572
Future income taxes		3,919	(1,472)	2,519	(29,682)
Post employment benefit costs		16,742	11,660	33,477	23,320
Non-controlling interest		340	(14)	806	(121)
Other non-cash items		(294)	319	(375)	298
		<b>169,344</b>	<b>170,099</b>	<b>326,703</b>	<b>289,111</b>
Change in non-cash working capital		<b>(58,109)</b>	<b>(14,211)</b>	<b>(68,694)</b>	<b>89,075</b>
		<b>111,235</b>	<b>155,888</b>	<b>258,009</b>	<b>378,186</b>
Cash and cash equivalents from (used in) financing					
Repurchase of accounts receivable	2	-	(5,000)	(5,000)	(5,000)
Net proceeds (repayments) of notes payable and bank advances		(4,694)	(2,866)	(13,444)	(44,524)
Repayments of long-term debt		(100)	(66,324)	(100)	(66,348)
Increase in capital lease obligations		844	2,791	651	1,684
Increase (decrease) in non-controlling interest		(114)	139	(583)	139
Repurchase of common shares		(23,001)	(14,616)	(41,724)	(32,726)
Preferred share dividends		(2,385)	(2,385)	(4,769)	(4,769)
Common share dividends		(35,096)	(36,713)	(70,386)	(70,200)
		<b>(64,546)</b>	<b>(124,974)</b>	<b>(135,355)</b>	<b>(221,744)</b>
Cash and cash equivalents from (used in) investing					
Purchase of capital investments		(44,700)	(72,833)	(129,496)	(143,469)
Proceeds on sale of capital investments		769	374	769	2,481
Increase in investments		-	(14)	-	(14)
Funding of pension plans		(17,911)	(16,428)	(59,833)	(20,888)
Decrease (increase) in deferred charges and credits		(1,780)	(8,077)	7,269	(344)
		<b>(63,622)</b>	<b>(96,978)</b>	<b>(181,291)</b>	<b>(162,234)</b>
Cash and cash equivalents from (used in) continuing operations					
		<b>(16,933)</b>	<b>(66,064)</b>	<b>(58,637)</b>	<b>(5,792)</b>
Cash and cash equivalents from (used in) discontinued operations	14	-	18,550	-	18,439
Cash and cash equivalents, beginning of period		<b>323,626</b>	<b>238,373</b>	<b>365,330</b>	<b>178,212</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 306,693</b>	<b>\$ 190,859</b>	<b>\$ 306,693</b>	<b>\$ 190,859</b>
Supplementary disclosure					
Interest paid		\$ 25,705	\$ 29,018	\$ 39,095	\$ 43,446
Income taxes paid		\$ 41,131	\$ 33,956	\$ 90,812	\$ 40,184

*See accompanying notes to the consolidated financial statements*

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and methods used for interim reporting purposes are consistent with those in effect for the most recent annual audited financial statements for the year ended December 31, 2003, except as noted under Asset retirement obligations. These unaudited interim financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2003.

The significant accounting policies used in preparing our unaudited interim financial statements are summarized below:

*Consolidated financial statements*

We have prepared the consolidated financial statements according to Canadian generally accepted accounting principles (Canadian GAAP).

We consolidate the financial statements of all the companies we control. We proportionately consolidate our share of the financial statements of our joint venture interest. At June 30, 2004, our principal subsidiaries include Aliant Telecom Inc., Innovatia Inc., Aliant Information Technology Inc. and Xwave Solutions Inc. Our joint venture interest is in Aliant ActiMedia.

*Use of accounting estimates*

Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates used in these financial statements.

*Revenue recognition*

We recognize operating revenues when they are earned, specifically, when services are provided, products are delivered to customers, persuasive evidence of an arrangement exists, amounts are fixed or determinable, and collectability is reasonably assured.

For transactions involving more than one product or service we allocate revenue to each based on relative fair values. Revenue is recognized for each product or service as it is delivered provided the product or service has stand-alone value and there is reliable evidence of the fair value of undelivered items.

For arrangements where subcontractors perform services for our customers, we recognize revenue based on the amounts billed to the customers when we act as the principal in the arrangement. When we act as the subcontractor, we recognize the net amount as revenue when we perform the service.

We defer payments received in advance until we provide the service or deliver the product to customers.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

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**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Revenue recognition (continued)*

For fixed-price service contracts, we recognize revenue based on the extent of work accomplished using the percentage-of-completion method. Management estimates the percentage-of-completion by reference to actual performance in relation to contract milestones. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, investments in money market instruments with a maturity of less than 90 days, and notes receivable from Bell Canada with a maturity of 30 days (as described in note 19), all of which is readily convertible to cash and subject to an insignificant risk of change in fair value.

*Transfer of receivables*

Under a purchase and sale agreement we sell certain accounts receivable to a securitization trust. We record the sale when we surrender control over the transferred accounts receivable and receive proceeds from the trust. The gains or losses that result from these transactions and program administration fees are recognized as other income (expenses). The gain or loss calculated is partly dependent on the carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest, based on their relative fair value at the date of the transfer. We determine fair value of the accounts receivable transferred based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable and credit loss ratios.

*Inventory*

We value inventory at the lower of cost and net realizable value.

*Income taxes*

We use the asset and liability method to account for income taxes. Under this method income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for financial reporting purposes compared with tax purposes. Accordingly, a future income tax asset or liability is determined for each temporary difference based on the tax rates enacted by tax law or substantively enacted that are expected to be in effect when the underlying items of income and expense are expected to be realized. The effect of a change in tax rates on future income tax assets and liabilities is included in earnings in the period that the change is substantively enacted. A valuation allowance is recorded to reduce future income tax assets to the amount more likely than not to be realized.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

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**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Capital investments*

Capital investments are recorded at cost. We calculate depreciation on a straight-line basis over the useful lives of the investments as noted below:

Investment	Rate
Buildings and towers	10-40 years
Telecommunications facilities and equipment	4-40 years
Application software and other equipment	3-15 years

We capitalize contracted costs, labour and overhead related to our self-constructed assets, classified as plant under construction. We do not record depreciation on plant under construction that is not yet operational.

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

*Deferred charges*

Deferred charges mainly include:

- debt issue costs, which are amortized on a straight-line basis over the term of the related debt;
- cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts;
- Internet commissions, which are amortized over a defined customer relationship period; and
- our retained interest in accounts receivable transferred to a securitization trust, as described in note 2.

*Goodwill*

Goodwill represents the excess, at the dates of acquisition, of the costs over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed. We annually review goodwill of all of our reporting units to ensure that its fair value remains greater than, or equal to, carrying value. Any impairment in the value of goodwill is charged to income in the period that the review is performed.

*Derivative financial instruments*

We use derivative financial instruments periodically in the management of our foreign currency and interest rate exposures. We do not use derivative financial instruments for trading or speculative purposes.

## **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### *Derivative financial instruments (continued)*

We formally document all relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

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

The following describes our policy for specific kinds of derivatives:

We use interest rate swap agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

We use interest rate swaption agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. If the swaption is exercised it will result in us entering into an interest rate swap, which will be accounted for as described above. Prior to the exercise of the swaption the premiums we receive are amortized as an adjustment to interest expense over the period from receipt of the premium to maturity of the underlying debt obligation.

### *Post employment benefits*

We provide certain pension plans and non-pension post employment benefits to qualified employees. These include contributory defined contribution (DC) pension plans, non-contributory defined benefit (DB) pension plans based on a percentage of the best five year average earnings for each year of service and other post employment benefit (OPEB) plans such as life insurance and health care plans.

## **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### *Post employment benefits (continued)*

We accrue our obligations under employee benefit plans and related costs, net of the fair value of plan assets. We have adopted the following policies for our DB pension plans and OPEB plans:

- The cost of pensions and other post employment benefits earned by employees is actuarially determined using:
  - the projected benefit method, pro rated on years of service;
  - management's best estimate of expected plan investment performance, salary increases, retirement ages of employees and expected health care costs; and
  - discount rates for the employee benefit plans that are selected in reference to current interest rates on long-term debt of high-quality corporate issuers. The expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given our policy asset mix. Over the past 10 years, our weighted average rate of return for our defined benefit pension plans was 9.7 per cent per annum.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of three years.
- We amortize past service costs from plan amendments on a straight-line basis over the average remaining service period of employees who were active at the date of amendment. This represents the period over which we expect to realize the benefit from the amendment.
- We use the corridor approach to recognize actuarial gains and losses into earnings. This involves deducting the greater of 10 per cent of the benefit obligation or the market-related value of the plan assets from the unamortized net actuarial gains or losses. The excess amount calculated is then amortized over the average remaining service period of active employees being 13 years at June 30, 2004 (December 31, 2003 – 13 years).
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, we account for the curtailment prior to the settlement.

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

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

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**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Post employment benefits (continued)*

We are responsible for adequately funding our DB pension plans. We make required contributions to them as determined by actuarial valuations. These contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are currently updating our actuarial valuations for the year ended December 31, 2003, and expect these to be completed in the third quarter of 2004. These valuations could result in either lower or higher minimum required contributions to the DB pension plans than the \$63.7 million that was identified in 2003. In addition, we could make special deficit funding contributions, which represent a voluntary acceleration of required funding. For the three and six months ended June 30, 2004, we made special deficit funding contributions of \$nil million and \$25.0 million, respectively (June 30, 2003 - \$nil million and \$nil million, respectively).

DC pension plan costs are recognized as employees render services during the year.

*Earnings per common share*

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

*Stock-based compensation plan*

We have a stock-based compensation plan for executives and certain senior managers, which is described in note 16. For stock-based compensation awards granted after January 1, 2003, we record compensation expense upon issuance of stock options to employees calculated using the fair value method. Compensation expense recognition commences when stock options are issued, with full recognition equally over the vesting period, being three years. The expense to be amortized over the vesting period is determined using the Black-Scholes model.

As permitted under the CICA accounting standard for stock-based compensation and other stock-based payments, we do not record compensation expense upon issuance of stock options to employees under our own stock option plan for awards granted prior to January 1, 2003. However, as required by the standard, we are disclosing the pro-forma net income and pro-forma earnings per share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in note 15.

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

## **1. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### *Asset retirement obligations*

Effective January 1, 2004, we retroactively adopted the CICA handbook section 3110, Asset retirement obligations. This standard provides guidance on recognition, measurement and disclosure of liabilities related to legal obligations associated with the retirement of long-lived assets. These obligations are initially measured at fair value and recorded in the year in which they are incurred and when a reasonable estimate of fair value can be made. The fair value is the amount at which the liability could be settled in a current transaction. The initial fair value estimate is subject to subsequent adjustments to reflect the passage of time and any changes to the timing or the amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized with the related asset and amortized into earnings over the asset's useful life. The adoption of this standard had no material impact on our financial position, results of operations or cash flows.

## **2. TRANSFER OF RECEIVABLES**

On December 13, 2001, we entered into a five-year revolving purchase and sale agreement to sell up to \$150.0 million of interest in a pool of our subsidiary's, Aliant Telecom Inc., trade accounts receivable to a securitization trust. In March 2004, the program was amended and the available facility was decreased to \$125.0 million. As at June 30, 2004, we had received net cash proceeds of \$125.0 million (December 31, 2003 - \$130.0 million) on the sale of accounts receivable to the securitization trust.

As part of the agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the cash proceeds received, which is held and owned by the trust. This security is transferred back to us upon the expiry of the agreement and as such we have recorded these accounts receivable in deferred charges as a retained interest in the securitization trust. At June 30, 2004, this retained interest amounted to \$36.1 million (December 31, 2003 - \$28.7 million).

We continue to service these accounts receivable and collect the amounts owing, however the trust's interest in the collection of these accounts receivable, including receivables that make up the retained interest, ranks ahead of our interest. The trust and its investors have no recourse to our other assets for failure of the customer to pay the amounts when due.

Under the agreement the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During this time, we remain exposed to certain risks of default that could cause the agreement to terminate early.

During the three and six months ended June 30, 2004, we recognized a pre-tax loss and administration fees of approximately \$0.8 million and \$1.8 million, respectively (June 30, 2003 - \$1.2 million and \$2.3 million, respectively) on the transfer of receivables.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

**2. TRANSFER OF RECEIVABLES (Continued)**

The table below shows the securitization as at June 30, 2004, and December 31, 2003, respectively, and the assumptions that were used in determining the fair value on the date of transfer. The sensitivity of these assumptions to an immediate 10 to 20 per cent change is not material.

<i>(thousands of dollars, except as otherwise noted)</i>	<b>Range 2004</b>	<b>As at June 30, 2004</b>	<b>As at December 31, 2003</b>
Securitized interest in accounts receivable		\$ 161,095	\$ 158,726
Cash proceeds		\$ 125,000	\$ 130,000
Retained interest		\$ 36,095	\$ 28,726
Servicing liability		\$ 403	\$ 424
Average trade accounts receivable managed		\$ 212,181	\$ 209,796
Assumptions:			
Cost of funds	2.44% - 2.94%	<b>2.44%</b>	3.42%
Average delinquency ratio	13.30% - 18.00%	<b>18.00%</b>	11.90%
Average net credit loss ratio	0.97% - 1.18%	<b>1.04%</b>	1.08%
Weighted average life in days	41 - 44	<b>44</b>	42

The table below is a summary of certain cash flows received from and paid to the trusts during the year.

<i>For the period ended June 30 (thousands of dollars)</i>	<b>Three months</b>		<b>Six months</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
Collections reinvested in revolving sales	\$ 431,284	\$ 442,588	\$ 915,614	\$ 921,020
Decrease in sales proceeds	\$ -	\$ 5,000	\$ 5,000	\$ 5,000

**3. INCOME TAXES**

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

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

**3. INCOME TAXES (Continued)**

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

<i>(thousands of dollars)</i>	<b>As at June 30,</b>		As at December 31,	
	<b>2004</b>		2003	
Capital investments	\$	<b>10,343</b>	\$	3,884
Pension and post employment benefits		<b>(4,398)</b>		7,651
Deferred charges		<b>(17,509)</b>		(17,376)
Loss carryforwards		<b>4,393</b>		2,083
Other		<b>11,637</b>		12,852
Net future tax asset		<b>4,466</b>		9,094
Less: current portion of future tax asset (liability)		<b>141</b>		(3,797)
Future tax asset	\$	<b>4,325</b>	\$	12,891

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

<b>For the period ended June 30</b>	<b>Three months</b>		<b>Six months</b>	
<i>(thousands of dollars)</i>	<b>2004</b>	2003	<b>2004</b>	2003
Current tax expense	\$ 24,293	\$ 42,086	\$ 50,232	\$ 94,968
Future tax expense:				
Change in temporary differences	3,381	(893)	2,161	(28,971)
Change in statutory rate	538	(579)	358	(711)
Income tax expense	\$ 28,212	\$ 40,614	\$ 52,751	\$ 65,286

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

<b>For the period ended June 30</b>	<b>Three months</b>		<b>Six months</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
Statutory income tax rate (including surtax)	35.67 %	37.93 %	35.73 %	38.91 %
Federal large corporation tax	0.74	0.26	1.07	0.27
Tax rate change - future asset	(1.09)	(0.59)	(0.69)	(0.56)
Non-taxable gain	0.09	0.81	0.05	0.57
Non-deductible goodwill	0.05	0.07	0.06	0.05
Benefit of non-capital losses not recognized	-	-	0.01	-
Other permanent differences	0.41	1.41	0.32	0.60
Effective income tax rate	35.87 %	39.89 %	36.55 %	39.84 %

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**(unaudited)**  
**June 30, 2004**

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**3. INCOME TAXES (Continued)**

*Tax losses*

At June 30, 2004, we have accumulated \$13.5 million (December 31, 2003 - \$6.5 million) in non-capital tax losses that are available to reduce taxable income in future years. These losses will expire after 2010 if not used. The tax benefit of the non-capital losses has been recognized as part of the future tax asset.

We also have capital losses of approximately \$37.2 million at June 30, 2004, (December 31, 2003 - \$34.6 million) available to be carried forward indefinitely to reduce capital gains in future years. No future tax asset associated with \$34.6 million of these losses has been recognized for financial reporting purposes.

**4. CAPITAL INVESTMENTS**

<b>As at June 30, 2004</b> <i>(thousands of dollars)</i>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land	\$ 13,008	\$ -	\$ 13,008
Buildings and towers	355,642	174,234	181,408
Telecommunications facilities and equipment	4,428,955	2,923,749	1,505,206
Application software and other equipment	585,989	387,319	198,670
Plant under construction	38,507	-	38,507
Materials and supplies	5,500	-	5,500
	<b>\$ 5,427,601</b>	<b>\$ 3,485,302</b>	<b>\$ 1,942,299</b>

<b>As at December 31, 2003</b> <i>(thousands of dollars)</i>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land	\$ 13,565	\$ -	\$ 13,565
Buildings and towers	336,884	163,675	173,209
Telecommunications facilities and equipment	4,378,012	2,808,618	1,569,394
Application software and other equipment	592,589	363,564	229,025
Plant under construction	22,829	-	22,829
Materials and supplies	5,500	-	5,500
	<b>\$ 5,349,379</b>	<b>\$ 3,335,857</b>	<b>\$ 2,013,522</b>

## **5. ACCRUED BENEFIT ASSET (LIABILITY)**

We provide pension and non-pension post employment benefits to most of our employees. These include DC pension plans, DB pension plans and OPEB plans. The significant policies adopted for these plans are discussed in note 1 under Post employment benefits.

### *DC pension plans*

Our DC pension plans require company contributions between 4 per cent and 6 per cent and employee contributions between nil and 6 per cent of a member-employee's pensionable earnings. The total cost for the DC pension plans is equal to our required contributions and was \$2.0 million and \$5.3 million, respectively, for the three and six months ended June 30, 2004 (June 30, 2003 - \$2.4 million and \$4.4 million, respectively).

### *DB pension plans*

Our DB pension plans provide a pension to employees that reach 65 years of age at retirement with at least two years of service. The formulas for determining the benefits provided under these plans vary by plan. As an example, under a plan that provides a pension equal to 1.5 per cent of the employee's best five year average earnings for each year of service, an employee with 30 years of service at 1.5 per cent per year could receive a pension equal to 45 per cent of the employee's best five-year average earnings. For employees that retire before age 65 but meet other age plus service requirements either a reduced or unreduced pension may be payable. Pensions paid are subject to annual indexing with the Consumer Price Index up to a maximum of 2 per cent per year.

We have some DB pension plans that are registered under the Income Tax Act and are regulated by the Office of the Superintendent of Financial Institutions. We also have some DB pension arrangements for executives that are not registered plans. We are required to maintain funding levels of the registered plans by making contributions to a trust fund that is used to pay benefits under the plans. We fund the non-registered plans directly when the benefits under those plans are paid to retirees.

### *OPEB plans*

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. We do not maintain a trust fund to pay for OPEBs, rather we pay the benefits directly to the plan carrier or to the retired employee as required.

**ALIAN T INC.**  
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**5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)**

*Assumptions*

The measurement of the accrued benefit obligation and annual net benefit plans' cost for the DB pension plans and OPEB plans requires an actuary to perform the calculations. We make several assumptions which are used as inputs to the actuarial calculations. The key assumptions are:

	<b>2004</b>	2003
Rate used to discount the obligations	<b>6.75 %</b>	6.75 %
Expected return on plan assets	<b>7.50 %</b>	7.50 %
Rate of compensation increase	<b>3.50 %</b>	3.50 %
Growth rate of per capita health care costs, first 5 years	<b>8.00 %</b>	8.00 %
Growth rate of per capita health care costs, thereafter	<b>4.50 %</b>	4.50 %

*Investment of DB pension plans assets*

We have established a Master Trust to hold and invest the assets of the DB pension plans. The Master Trust follows an investment policy that includes the following asset mix. We have assumed a 7.5 per cent expected return on plan assets, which is based on the expected long-term returns for each asset class and their relative target weighting in the asset mix.

Asset category	Target weight	Percentage of plan assets		Weighted average expected long-term rate of return
		<b>June 30, 2004</b>	December 31, 2003	
Bonds / fixed income securities	35 - 45%	<b>40%</b>	40%	6.0%
Equity securities	55 - 65%	<b>60%</b>	60%	8.5%
<b>Total</b>				<b>7.5%</b>

The Master Trust is not permitted to directly own common shares or debt obligations of our Company or our subsidiaries. The Master Trust does own units of index funds that may hold shares of Aliant Inc. or debt instruments of our subsidiaries by virtue of the fact that these securities are included in the relevant indices. The Master Trust does hold common shares of BCE Inc. worth approximately \$5.8 million (less than 1.0 per cent of total plan assets) at June 30, 2004. Fixed income securities include BCE Inc. and Bell Canada debentures of approximately \$6.5 million (less than 1.0 per cent of total plan assets) at June 30, 2004. The total value of all our securities and those of related issuers held directly or indirectly in the Master Trust at June 30, 2004, was approximately \$13.4 million (1.0 per cent of plan assets) and at December 31, 2003, was approximately \$15.0 million (1.2 per cent of plan assets).

**ALIAN T INC.**  
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**5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)**

*Components of accrued benefit asset (liability)*

The table following shows the change in DB pension plans and OPEB plans obligations and the change in the fair value of DB pension plans' assets during the six months ended June 30, 2004, and the status of the plans as at December 31, 2003.

	DB pension plans		OPEB plans	
	June 30, 2004	December 31, 2003	June 30, 2004	December 31, 2003
<i>(thousands of dollars)</i>				
Plan obligations:				
Accrued benefit obligation, beginning of period	\$ 1,496,455	\$ 1,379,459	\$ 161,376	\$ 159,681
Cost of benefits earned in the period	14,056	24,753	2,288	4,431
Interest on the obligation	49,554	93,893	5,450	10,189
Actuarial (gains) losses	-	83,413	-	(8,914)
Benefits paid out of the plan	(38,616)	(85,063)	(2,190)	(4,011)
Accrued benefit obligation, end of period	\$ 1,521,449	\$ 1,496,455	\$ 166,924	\$ 161,376
Plan assets:				
Fair value of plan assets, beginning of period	\$ 1,262,442	\$ 1,081,830	\$ -	\$ -
Actual return on plan assets	42,202	140,986	-	-
Benefits paid out of the plan	(38,616)	(85,063)	(2,190)	(4,011)
Employer contributions to the plan	32,643	124,689	2,190	4,011
Fair value of plan assets, end of period	\$ 1,298,671	\$ 1,262,442	\$ -	\$ -
Plan deficit, end of period	\$ (222,778)	\$ (234,013)	\$ (166,924)	\$ (161,376)
Unamortized losses	393,122	397,453	2,220	2,220
Accrued benefit asset (liability), end of period	\$ 170,344	\$ 163,440	\$ (164,704)	\$ (159,156)

Each of the individual DB pension plans that make up the totals included in the previous table have deficits where the accrued benefit obligation exceeds the fair value of plan assets. While the DB pension plans are not considered fully funded for financial reporting purposes, we are funding the registered DB pension plans in accordance with the applicable statutory funding rules and regulations governing the particular plans.

**ALIAN T INC.**  
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**June 30, 2004**

**5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)**

*Components of DB pension plans and OPEB plans cost*

The table below shows the components of the DB pension plans and OPEB plans cost.

<i>(thousands of dollars)</i>	DB pension plans			
	Three months		Six months	
	2004	2003	2004	2003
For the period ended June 30				
Cost of benefits earned in the period	\$ 7,028	\$ 6,188	\$ 14,056	\$ 12,376
Interest on the obligation	24,777	23,473	49,554	46,946
Expected return on plan assets	(23,644)	(22,890)	(47,295)	(45,780)
Amortization of net actuarial losses	4,712	1,404	9,424	2,808
Net benefit plans' cost	\$ 12,873	\$ 8,175	\$ 25,739	\$ 16,350

<i>(thousands of dollars)</i>	OPEB plans			
	Three months		Six months	
	2004	2003	2004	2003
For the period ended June 30				
Cost of benefits earned in the period	\$ 1,144	\$ 1,108	\$ 2,288	\$ 2,216
Interest on the obligation	2,725	2,377	5,450	4,754
Net benefit plans' cost	\$ 3,869	\$ 3,485	\$ 7,738	\$ 6,970

The net benefit plans' cost included in the previous table and recorded in operating expenses for the period reflects the amortization of actual gains and losses on plan assets and actuarial gains and losses on plan obligations. If the net benefit plans' cost was adjusted to include all gains and losses incurred in the plans during the period and exclude the amortization or other recognition of existing unamortized amounts, the cost would be as follows:

<i>(thousands of dollars)</i>	DB Pension plans			
	Three months		Six months	
	2004	2003	2004	2003
For the period ended June 30				
Net benefit plans cost as calculated	\$ 12,873	\$ 8,175	\$ 25,739	\$ 16,350
Remove amortization of net actuarial losses	(4,712)	(1,404)	(9,424)	(2,808)
Remove expected return on plan assets	23,644	22,890	47,295	45,780
Actual (gain) loss on plan assets	13,936	(79,913)	(42,202)	(22,103)
Adjusted net benefit plans' (income) cost	\$ 45,741	\$ (50,252)	\$ 21,408	\$ 37,219

<i>(thousands of dollars)</i>	OPEB plans			
	Three months		Six months	
	2004	2003	2004	2003
For the period ended June 30				
Net benefit plans cost as calculated	\$ 3,869	\$ 3,485	\$ 7,738	\$ 6,970
Actuarial gain incurred	-	-	-	(8,914)
Adjusted net benefit plans' (income) cost	\$ 3,869	\$ 3,485	\$ 7,738	\$ (1,944)

**ALIAN T INC.**  
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**5. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)**

*Sensitivity to changes in assumptions*

The value of the accrued benefit obligation and the amount of net benefit plans' cost for the DB pension plans and the OPEB plans that we record are sensitive to the assumptions we make and utilize in our calculations. The following table outlines the estimated impact on the value of the accrued benefit obligation and the annual amount of net benefit plans' cost for a 0.25 percentage point change in the discount rate, the expected return on plan assets and rate of compensation increase. The table also shows the sensitivity of a 1.0 percentage point change in the assumed growth in per capita health care costs. The impact on the quarterly cost would be approximately one-quarter of the indicated annual impact.

<i>(thousands of dollars, rounded to millions)</i>	<b>Assumption</b>	<b>Rate change</b>	<b>DB pension plans</b>		<b>OPEB plans</b>	
			Obligation	Annual cost	Obligation	Annual cost
Rate used to discount the obligations	6.75%	+/- 0.25%	\$ 54,000	\$ 1,000	\$ 6,000	\$ -
Expected return on plan assets	7.50%	+/- 0.25%	\$ -	\$ 3,000	\$ -	\$ -
Rate of compensation increase	3.50%	+/- 0.25%	\$ 8,000	\$ 1,000	\$ -	\$ -
Growth rate of per capita health care costs	4.50-8.00%	+ 1.00%	\$ -	\$ -	\$ 27,000	\$ 3,000
		- 1.00%	\$ -	\$ -	\$ (23,000)	\$ (2,000)

The indicated impact of a 0.25 change in the discount rate on annual net benefit plans' cost includes the impact on the interest and current service cost components of pension cost. In addition to these impacts, the amount of amortization of net actuarial losses would also change, however this change would depend on whether the 0.25 change was an increase in the discount rate or a decrease in the discount rate and would not extrapolate to other assumed changes in the discount rate. For reference, the amount of amortization of net actuarial losses would increase by approximately \$4.0 million annually if the discount rate were to be reduced by 0.25 per cent to 6.50 per cent.

**6. GOODWILL**

<i>(thousands of dollars)</i>	<b>As at June 30, 2004</b>		<b>As at December 31, 2003</b>	
Goodwill, at cost	\$	<b>87,616</b>	\$	87,616
Cumulative impairment provision		<b>(50,000)</b>		(50,000)
Accumulated amortization		<b>(5,812)</b>		(5,812)
	\$	<b>31,804</b>	\$	31,804

All goodwill relates to our Information Technology segment. The annual impairment test was conducted during the second quarter and no provision was required.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
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**7. NOTES PAYABLE AND BANK ADVANCES**

At June 30, 2004, we have \$nil million (December 31, 2003 - \$nil million) outstanding under our commercial paper program. We maintain lines of credit totalling \$557.0 million (December 31, 2003 - \$557.0 million) of which \$350.0 million (December 31, 2003 - \$350.0 million) are committed lines supporting our commercial paper program, \$150.0 million (December 31, 2003 - \$150.0 million) are uncommitted operating lines and \$57.0 million (December 31, 2003 - \$57.0 million) are operating lines of credit within our subsidiaries. At June 30, 2004, there was \$6.8 million (December 31, 2003 - \$11.4 million) outstanding on our subsidiaries' operating lines of credit.

**8. RESTRUCTURING CHARGE**

During the first six months of 2004, we continued to restructure our Information Technology segment operations, which resulted in a provision of \$1.2 million and \$2.4 million for the three and six months, respectively, against earnings. The objective of this is to improve productivity and profitability, realign xwave's strategy and simplify its business model. Costs associated with the restructuring, the majority of which are severance and related benefits, but also include premises rationalization costs, are being charged against this provision. As at June 30, 2004, the balance of this year's and prior years' restructuring provision included in payables and accruals totalled \$4.2 million. The remaining provision is expected to be drawn down during 2004.

In the first six months of 2004, we also performed some restructuring in our Telecommunications segment operations, which resulted in a provision of \$0.3 million and \$2.2 million for the three and six months, respectively, against earnings. The restructuring relates to workforce reductions with the associated costs being severance and related benefits. The objective of this is to improve productivity and profitability. As at June 30, 2004, the balance of this restructuring provision included in payables and accruals totalled \$1.3 million, and is expected to be drawn down during 2004.

**ALIANTE INC.**  
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**9. LONG-TERM DEBT**

<i>(thousands of dollars)</i>	Interest rate	Maturity	<b>As at June 30, 2004</b>	As at December 31, 2003
<i>Telecommunications</i>				
Notes				
Aliant Telecom Inc.				
Series 1	6.46%	2004	\$ 100,000	\$ 100,000
Series 2	6.65%	2009	100,000	100,000
Series 3	6.70%	2005	150,000	150,000
Series 4	6.80%	2011	150,000	150,000
Series 5	5.35%	2007	100,000	100,000
			\$ 600,000	\$ 600,000
Bonds				
Maritime Tel & Tel Limited				
AD	10.45%	2013	\$ 50,000	\$ 50,000
Island Telecom Inc.				
T	10.60%	2009	3,500	3,500
U	11.15%	2010	6,500	6,500
V	9.77%	2018	5,000	5,000
W	8.76%	2019	5,000	5,000
NewTel Communications Inc.				
T	10.75%	2014	75,000	75,000
V	11.40%	2010	40,000	40,000
			\$ 185,000	\$ 185,000
Debentures				
Maritime Tel & Tel Limited				
Series 2	8.30%	2019	\$ 50,000	\$ 50,000
Series 4	9.70%	2019	50,000	50,000
Series 5	9.05%	2025	60,000	60,000
NBTel Inc.				
AA	11.13%	2013	40,000	40,000
			\$ 200,000	\$ 200,000
			\$ 985,000	\$ 985,000
Present value of obligations under capital leases			5,397	4,746
Total - Telecommunications			\$ 990,397	\$ 989,746
<i>Information Technology</i>				
		2005	\$ 213	\$ 313
Total long-term debt			\$ 990,610	\$ 990,059
Less: Portion due within one year			101,781	101,535
			\$ 888,829	\$ 888,524

**ALIANTE INC.**  
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**9. LONG-TERM DEBT (Continued)**

*Telecommunications*

All bonds are issued in series and are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The bonds are secured by deeds of trust and mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon certain real and immovable property and equipment of Aliant Telecom Inc., and a floating charge on certain other property of Aliant Telecom Inc., both present and future.

All debentures and notes are issued in series and certain series are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The debentures and notes are issued under trust indentures and are unsecured.

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

	Remainder of					
<i>(thousands of dollars)</i>	2004	2005	2006	2007	2008	Thereafter
Long-term debt	\$ 100,138	\$ 150,075	\$ -	\$ 100,000	\$ -	\$ 635,000
Capital leases	1,643	1,300	1,800	654	-	-
	\$ 101,781	\$ 151,375	\$ 1,800	\$ 100,654	\$ -	\$ 635,000

**10. NON-CONTROLLING INTEREST**

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

<i>(thousands of dollars)</i>	As at June 30, 2004	As at December 31, 2003
Xwave New England Corp. (formally TechKnowledge Inc.)	\$ -	\$ 583
Atlantic Mobility Products Ltd.	4,274	3,468
	\$ 4,274	\$ 4,051

**11. CAPITAL STOCK**

*Authorized*

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

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**11. CAPITAL STOCK (Continued)**

Unlimited number of common shares, without par value.

<i>Issued and outstanding</i> <i>(thousands of dollars, except as otherwise noted)</i>	<b>As at June 30, 2004</b>		As at December 31, 2003	
	<b>Number of shares</b>	<b>Stated capital</b>	Number of shares	Stated capital
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares	132,312,406	1,028,614	133,616,920	1,035,798
		<b>\$ 1,200,878</b>		<b>\$ 1,208,062</b>

The following table provides the details of the change in the issued and outstanding common shares:

<i>(thousands of dollars, except as otherwise noted)</i>	<b>Six months ended June 30, 2004</b>		Twelve months ended December 31, 2003	
	<b>Number of shares</b>	<b>Stated capital</b>	Number of shares	Stated capital
Common shares, beginning of period	133,616,920	\$ 1,035,798	139,513,639	\$ 1,070,551
Stock option plan (note 16)	47,822	936	434,132	8,629
Common shareholder dividend reinvestment and stock purchase plan	110,948	3,214	197,719	5,927
Shares purchased for cancellation	(1,463,284)	(11,334)	(6,528,570)	(49,309)
Common shares, end of period	132,312,406	\$ 1,028,614	133,616,920	\$ 1,035,798

Common shares are purchased on the open market for participants in our employees' stock savings plan. Refer to note 16 for details of this plan.

Under the provisions of our common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash. In relation to these plans, we issued shares in lieu of paying cash dividends during the three and six months ended June 30, 2004, of \$2.4 million and \$4.7 million, respectively (June 30, 2003 - \$2.4 million and \$4.6 million, respectively).

Under a normal course issuer bid, which commenced July 22, 2002, and ended July 21, 2003, we acquired, from time to time, our common shares at the market price with cash through the facilities of the Toronto Stock Exchange ("TSX"). We purchased and cancelled all of the allowable 1,600,000 shares as of June 2003, of which 1,335,700 shares were purchased in 2003.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
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**11. CAPITAL STOCK (Continued)**

On July 30, 2003, we announced the TSX had accepted our Notice of intention to purchase from time to time up to a further 6,925,000 of our outstanding common shares, representing approximately 5.0 per cent of our issued and outstanding common shares as of that date, being 138,517,283 common shares. Under this normal course issuer bid, we acquire our common shares at the market price with cash through the facilities of the TSX. Bell Canada, our majority shareholder, sells shares into the normal course issuer bid on a pro-rata basis. The TSX has granted an exemption to permit us to make purchases from Bell Canada on this basis. Purchases of common shares may be made during the twelve-month period commencing August 6, 2003, and ending on August 5, 2004. As of June 30, 2004, 6,656,154 shares (shares purchased from Bell Canada – 3,357,854) were purchased for cancellation under this bid, of which 5,192,870 shares were purchased in 2003 (shares purchased from Bell Canada in 2003 – 2,643,070).

For the six months ended, June 30, 2004, we purchased for cancellation 1,463,284 shares (December 31, 2003 – 6,528,570) for an aggregate price of \$43.5 million (December 31, 2003 - \$200.9 million) which reduced capital stock by \$11.4 million (December 31, 2003 - \$49.3 million), contributed surplus by \$0.2 million (December 31, 2003 - \$64.2 million) and retained earnings by \$31.9 million (December 31, 2003 – \$87.4 million).

**12. SEGMENTED INFORMATION**

We operate through two reportable segments:

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

*Information Technology* – provides systems integration, application development, local area network installation, wide area network management, data centre operations, computer hardware, package software and information technology planning services. Included in this line of business are Aliant Information Technology Inc. and Xwave Solutions Inc.

The accounting policies of the segments are the same as those described in note 1. We evaluate performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

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

The Remote Communications and Emerging Business segments were divested of during 2003 and are included in prior year discontinued operations as discussed in note 14.

**ALIAN T INC.**  
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**12. SEGMENTED INFORMATION (Continued)**

For the three months ended June 30, 2004 (thousands of dollars)	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 464,027	\$ 60,873	\$ 684	\$ -	\$ 525,584
Intersegment revenue	2,047	24,354	-	(26,401)	-
Operating revenues	466,074	85,227	684	(26,401)	525,584
Operating expenses	270,161	79,344	6,999	(26,061)	330,443
Depreciation and amortization	97,060	2,134	369	(1,014)	98,549
Restructuring charge	309	1,164	-	-	1,473
Other income	485	178	48,784	(47,341)	2,106
Interest charges (income)	18,758	(112)	1,248	(1,309)	18,585
Income taxes	25,042	501	2,364	305	28,212
Non-controlling interest	340	-	-	-	340
Net income (loss) from continuing operations	\$ 54,889	\$ 2,374	\$ 38,488	\$ (45,663)	\$ 50,088
Net income from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ 54,889	\$ 2,374	\$ 38,488	\$ (45,663)	\$ 50,088
Total assets	\$ 2,682,470	\$ 159,309	\$ 1,842,826	\$ (1,719,054)	\$ 2,965,551
Purchase of capital investments	\$ 42,415	\$ 2,227	\$ 58	\$ -	\$ 44,700

For the three months ended June 30, 2003 (thousands of dollars)	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 460,363	\$ 56,265	\$ 649	\$ -	\$ 517,277
Intersegment revenue	3,710	28,350	-	(32,060)	-
Operating revenues	464,073	84,615	649	(32,060)	517,277
Operating expenses	240,656	82,769	5,739	(33,262)	295,902
Depreciation and amortization	95,977	3,007	356	(958)	98,382
Other income (expenses)	628	54	79,086	(79,996)	(228)
Interest charges	20,778	631	2,863	(3,331)	20,941
Income taxes (recovery)	41,891	(716)	(1,234)	673	40,614
Non-controlling interest	(37)	23	-	-	(14)
Net income (loss) from continuing operations	\$ 65,436	\$ (1,045)	\$ 72,011	\$ (75,178)	\$ 61,224
Net income (loss) from discontinued operations	\$ (173)	\$ -	\$ 9,515	\$ -	\$ 9,342
Net income (loss)	\$ 65,263	\$ (1,045)	\$ 81,526	\$ (75,178)	\$ 70,566
Total assets	\$ 2,696,330	\$ 168,533	\$ 2,646,968	\$ (1,929,571)	\$ 3,582,260
Purchase of capital investments	\$ 71,379	\$ 633	\$ 821	\$ -	\$ 72,833

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**12. SEGMENTED INFORMATION (Continued)**

For the six months ended June 30, 2004 <i>(thousands of dollars)</i>	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 894,535	\$ 134,627	\$ 864	\$ -	\$ 1,030,026
Intersegment revenue	4,171	49,065	-	(53,236)	-
Operating revenues	898,706	183,692	864	(53,236)	1,030,026
Operating expenses	517,240	171,561	12,714	(52,569)	648,946
Depreciation and amortization	196,399	4,453	674	(2,018)	199,508
Restructuring charge	2,230	2,326	-	-	4,556
Other income	4,123	208	93,623	(92,838)	5,116
Interest charges	37,704	351	2,658	(2,906)	37,807
Income taxes	50,453	1,493	196	609	52,751
Non-controlling interest	805	1	-	-	806
Net income (loss) from continuing operations	\$ 97,998	\$ 3,715	\$ 78,245	\$ (89,190)	\$ 90,768
Net income from discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -
Net income (loss)	\$ 97,998	\$ 3,715	\$ 78,245	\$ (89,190)	\$ 90,768
Total assets	\$ 2,682,470	\$ 159,309	\$ 1,842,826	\$ (1,719,054)	\$ 2,965,551
Purchase of capital investments	\$ 126,817	\$ 2,584	\$ 95	\$ -	\$ 129,496

For the six months ended June 30, 2003 <i>(thousands of dollars)</i>	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 886,824	\$ 130,609	\$ 733	\$ -	\$ 1,018,166
Intersegment revenue	7,110	57,030	-	(64,140)	-
Operating revenues	893,934	187,639	733	(64,140)	1,018,166
Operating expenses	482,796	187,328	11,237	(66,032)	615,329
Depreciation and amortization	192,085	5,791	544	(1,848)	196,572
Other income (expenses)	182	(39)	121,041	(121,676)	(492)
Interest charges	41,590	1,264	4,506	(5,476)	41,884
Income taxes (recovery)	69,464	(2,429)	(2,210)	461	65,286
Non-controlling interest	(81)	(40)	-	-	(121)
Net income (loss) from continuing operations	\$ 108,262	\$ (4,314)	\$ 107,697	\$ (112,921)	\$ 98,724
Net income (loss) from discontinued operations	\$ (338)	\$ -	\$ 11,068	\$ -	\$ 10,730
Net income (loss)	\$ 107,924	\$ (4,314)	\$ 118,765	\$ (112,921)	\$ 109,454
Total assets	\$ 2,696,330	\$ 168,533	\$ 2,646,968	\$ (1,929,571)	\$ 3,582,260
Purchase of capital investments	\$ 141,169	\$ 1,141	\$ 1,159	\$ -	\$ 143,469

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**12. SEGMENTED INFORMATION (Continued)**

*Revenue from external customers by product and service:*

For the period ended June 30 <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Telecommunications				
Local	\$ 188,571	\$ 192,630	\$ 376,828	\$ 382,659
Long distance	86,080	94,089	176,053	191,493
Wireless	94,012	80,485	180,561	153,646
Internet	30,183	26,463	59,162	51,849
Directory	27,970	26,113	29,983	27,876
Product	26,488	26,678	51,664	51,302
Other telecommunications	10,723	13,905	20,284	27,999
	<b>464,027</b>	<b>460,363</b>	<b>894,535</b>	<b>886,824</b>
Information Technology				
Fulfillment	31,171	22,833	72,148	65,366
IT services	29,702	33,432	62,479	65,243
	<b>60,873</b>	<b>56,265</b>	<b>134,627</b>	<b>130,609</b>
Other	684	649	864	733
	<b>\$ 525,584</b>	<b>\$ 517,277</b>	<b>\$ 1,030,026</b>	<b>\$ 1,018,166</b>

**13. OTHER INCOME (EXPENSES)**

For the period ended June 30 <i>(thousands of dollars)</i>	Three months		Six months	
	2004	2003	2004	2003
Interest income	\$ 2,145	\$ 2,216	\$ 9,256	\$ 5,338
Accounts receivable securitization (note 2)	(804)	(1,214)	(1,780)	(2,288)
Provincial large corporation tax	(401)	(1,026)	(2,297)	(2,186)
Miscellaneous income (charges)	1,166	(204)	(63)	(1,356)
	<b>\$ 2,106</b>	<b>\$ (228)</b>	<b>\$ 5,116</b>	<b>\$ (492)</b>

**14. DISCONTINUED OPERATIONS**

Effective January 1, 2003, Innovatia Inc., which was previously reported under the Emerging Business segment, was transferred to the Telecommunications segment. The remaining assets of the Emerging Business segment and other investments were disposed of throughout the rest of 2003.

In December 2003, the sale of the Remote Communications segment, as represented by our 53.2 per cent ownership in Stratos Global Corporation, was completed.

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**14. DISCONTINUED OPERATIONS (Continued)**

For reporting purposes, the prior period results of operations of the Emerging Business and Remote Communications segments are presented as discontinued operations, including segmented information as disclosed in note 12.

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

For the period ended June 30	<b>Three months</b>		<b>Six months</b>	
<i>(thousands of dollars)</i>	<b>2004</b>	2003	<b>2004</b>	2003
Operating revenues	\$ -	\$ 161,670	\$ -	\$ 318,040
Operating expenses	-	144,196	-	281,681
Other income	-	9,025	-	6,752
Interest on long-term debt	-	5,443	-	11,824
Income tax	-	6,744	-	10,736
Non-controlling interest	-	4,970	-	9,821
<b>Net income from discontinued operations</b>	<b>\$ -</b>	<b>\$ 9,342</b>	<b>\$ -</b>	<b>\$ 10,730</b>

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**15. EARNINGS PER COMMON SHARE**

For the period ended June 30 <i>(thousands of dollars, except per share amounts)</i>	Three months		Six months	
	2004	2003	2004	2003
Net income applicable to common shares:				
Net income from continuing operations	\$ 50,088	\$ 61,224	\$ 90,768	\$ 98,724
Preferred share dividends	(2,385)	(2,385)	(4,769)	(4,769)
Net income applicable to common shares from continuing operations	\$ 47,703	\$ 58,839	\$ 85,999	\$ 93,955
Net income from discontinued operations	-	9,342	-	10,730
Net income applicable to common shares	\$ 47,703	\$ 68,181	\$ 85,999	\$ 104,685
<b>Basic:</b>				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Basic earnings per common share from continuing operations	\$ 0.36	\$ 0.42	\$ 0.65	\$ 0.67
Basic earnings per common share from discontinued operations	-	0.07	-	0.08
Basic earnings per common share	\$ 0.36	\$ 0.49	\$ 0.65	\$ 0.75
<b>Diluted:</b>				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Impact of outstanding stock options	-	-	-	-
	132,685	138,683	133,038	138,976
Diluted earnings per common share from continuing operations	\$ 0.36	\$ 0.42	\$ 0.65	\$ 0.67
Diluted earnings per common share from discontinued operations	-	0.07	-	0.08
Diluted earnings per common share	\$ 0.36	\$ 0.49	\$ 0.65	\$ 0.75

**15. EARNINGS PER COMMON SHARE (Continued)**

The impact of outstanding stock options represents common shares issuable under the terms of our stock option plan that have a weighted average exercise price that is lower than the average market value during the period. There was no impact in 2003 or 2004 as the options would not have been exercised because their weighted average exercise price was greater than the average market value during the period. Refer to note 16 for details of our stock option plan.

The following table presents pro-forma net income and basic and diluted earnings per share using the fair market value method of accounting for stock-based compensation. The pro-forma adjustments presented below represent compensation expense on new awards granted since adoption of the new stock-based compensation standards on January 1, 2002, excluding those granted in 2003 and 2004 for which compensation expense was recorded as described in note 1.

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**15. EARNINGS PER COMMON SHARE (Continued)**

For the period ended June 30 <i>(thousands of dollars, except per share amounts)</i>	Three months		Six months	
	2004	2003	2004	2003
Pro-forma net income applicable to common shares:				
Net income from continuing operations	\$ 50,088	\$ 61,224	\$ 90,768	\$ 98,724
Pro-forma adjustments	(309)	(467)	(619)	(923)
Pro-forma net income from continuing operations	\$ 49,779	\$ 60,757	\$ 90,149	\$ 97,801
Preferred share dividends	(2,385)	(2,385)	(4,769)	(4,769)
Pro-forma net income applicable to common shares from continuing operations	\$ 47,394	\$ 58,372	\$ 85,380	\$ 93,032
Net income from discontinued operations	\$ -	\$ 9,342	\$ -	\$ 10,730
Pro-forma net income applicable to common shares	\$ 47,394	\$ 67,714	\$ 85,380	\$ 103,762
<b>Basic:</b>				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Pro-forma basic earnings per common share from continuing operations	\$ 0.36	\$ 0.42	\$ 0.64	\$ 0.67
Pro-forma basic earnings per common share from discontinued operations	\$ -	\$ 0.07	\$ -	\$ 0.08
Pro-forma basic earnings per common share	\$ 0.36	\$ 0.49	\$ 0.64	\$ 0.75
<b>Diluted:</b>				
Weighted average number of common shares outstanding	132,685	138,683	133,038	138,976
Impact of outstanding stock options	-	-	-	-
	132,685	138,683	133,038	138,976
Pro-forma diluted earnings per common share from continuing operations	\$ 0.36	\$ 0.42	\$ 0.64	\$ 0.67
Pro-forma diluted earnings per common share from discontinued operations	\$ -	\$ 0.07	\$ -	\$ 0.08
Pro-forma diluted earnings per common share	\$ 0.36	\$ 0.49	\$ 0.64	\$ 0.75

The fair value of the stock options granted are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used:

June 30	2004	2003
Dividend yield	3.76%	3.41%
Expected volatility	22.20%	25.30%
Risk-free interest rate	4.24%	4.33%
Expected lives	5.4 years	6.4 years

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**16. STOCK-BASED COMPENSATION PLANS**

At June 30, 2004, we had the following stock-based compensation plans.

*Stock option plan*

Under the stock option plan, we may grant stock options to plan members for up to 6,867,104 shares of common stock, of which 2,694,856 options for the same number of common shares were outstanding as at June 30, 2004 (December 31, 2003 – 2,338,367). The exercise price of each option equals the market price of our common shares on the date of grant. The right to exercise the options vests or accrues evenly over three years from the date they are granted under the plan and can be exercised for a period of up to 10 years from the date of grant.

A summary of the status of our stock option plan as of June 30, 2004, and December 31, 2003, and changes during the periods ended on those dates is presented below:

	As at June 30, 2004		As at December 31, 2003	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of period	2,338,367	\$ 30.06	2,680,450	\$ 28.94
Granted	432,621	\$ 32.39	289,138	\$ 26.84
Forfeited	(28,310)	\$ 31.98	(197,089)	\$ 32.59
Exercised	(47,822)	\$ 19.58	(434,132)	\$ 19.88
Options outstanding at end of period	2,694,856	\$ 30.60	2,338,367	\$ 30.06
Options exercisable at end of period	1,892,790	\$ 30.71	1,595,257	\$ 30.48

The following table summarizes information about stock options outstanding at June 30, 2004:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$11.746 to \$15.718	68,289	2.3	\$14.16	68,289	\$14.16
\$19.125 to \$20.079	83,106	3.6	\$19.96	83,106	\$19.96
\$21.768 to \$25.552	148,302	4.6	\$22.91	148,302	\$22.91
\$26.790 to \$34.900	1,917,585	7.9	\$31.04	1,115,519	\$31.55
\$35.250 to \$38.100	477,574	6.6	\$35.42	477,574	\$35.42
	2,694,856		\$30.60	1,892,790	\$30.71

## **16. STOCK-BASED COMPENSATION PLANS (Continued)**

### *Employees' stock savings plan*

We have an employees' stock savings plan for our eligible full-time employees, over 80 per cent of which participate in the plan. To satisfy the employees' purchases of shares under this plan, we may issue up to 2,079,527 additional common shares out of treasury or shares may be purchased on the open market. We are currently purchasing the shares for this plan on the open market.

Under the terms of the plan, employees can choose each year to have up to 10 per cent of their annual base earnings withheld to purchase our common stock. We will also contribute to the plan on behalf of participants based upon the employees' contributions using a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on the TSX on the last five days up to, and including, the dividend payment date. Participants in the plan purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

The total number of common shares bought for employees during the six months ended June 30, 2004, was 554,000 (for the year ended December 31, 2003, - 1,022,000).

### *Performance share unit plan*

In 2003, we established a performance share unit plan for selected officers and senior management to further align their long-term incentive compensation with total shareholder returns. Participants in the plan are required, over a period of five years, to hold a specific value of shares reflecting their position and responsibilities. Share units granted are subject to both time-based and performance-based vesting. Upon vesting, each share unit is entitled to one common share acquired on the open market or a cash payment equal to the fair market value of those shares, subject to adjustment depending on the achievement of performance criteria. The performance criteria are relative to our total shareholder return (share price appreciation plus dividends) compared to the total shareholder return for comparative groups of companies. Grantees are also entitled to receive additional share units based on dividends paid on our common shares.

Performance share units granted in the first six months of 2004 were 47,945 (June 30, 2003 – 58,959) with total share units outstanding at June 30, 2004 of 109,066 (December 31, 2003 – 61,121). No performance share units had vested as at June 30, 2004.

## **17. FINANCIAL INSTRUMENTS**

### *Risk management*

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 generally 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. 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. Refer to notes 1 and 2 for details on the transfer of receivables.

### *Currency exposures*

We have no principal amounts outstanding under cross-currency forward contracts or forward rate agreements.

### *Interest rate exposures*

Our long-term debt consists primarily of fixed interest rate financing. In order to diversify our sources of interest rate risk and manage the overall cost of borrowing we entered into interest rate derivative transactions and are therefore subject to risks associated with fluctuating interest rates. We had the following derivative instruments outstanding at June 30, 2004:

- Interest rate swap – We have entered into, for hedging purposes, an interest rate swap transaction with a notional amount at June 30, 2004, of \$100.0 million (December 31, 2003 - \$100.0 million) expiring on May 11, 2011. The swap transaction involves us exchanging our underlying fixed interest rate of 6.80 per cent per annum for a three-month Bankers' Acceptance floating interest rate plus 2.06 per cent.

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**17. FINANCIAL INSTRUMENTS (Continued)**

- Interest rate swaption – We have also entered into swaption transactions related to two outstanding issues of long-term debt with a total notional amount at June 30, 2004, of \$90.0 million (December 31, 2003 - \$90.0 million). The swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with us on the call dates of the two underlying debt instruments. If exercised, these swaptions will involve us paying the underlying fixed interest rates on the debt instruments of 10.45 per cent and 11.125 per cent, respectively, in exchange for receiving the three-month Bankers' Acceptance floating rate from the call dates in 2006 until maturity in 2013. In exchange for providing the counterparty with these options, we received payments from the counterparty of \$7.6 million in 2001 and \$5.4 million in 1997. The remaining unamortized premium income as at June 30, 2004, of \$9.0 million (\$9.4 million – December 31, 2003) is recorded as a deferred credit. This premium income is being amortized against interest expense over the period to maturity of the underlying debt issues.

*Fair value*

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. We base fair values on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. As a result, due to the use of subjective judgment and uncertainties, the fair values are not necessarily the net amounts that would be realized if these instruments were actually settled.

At June 30, 2004, and December 31, 2003, the carrying value of all financial instruments approximates fair value with the exception of the following:

<i>(thousands of dollars)</i>	<b>As at June 30, 2004</b>		<b>As at December 31, 2003</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Long-term debt	\$ 990,610	\$ 1,168,800	\$ 990,059	\$ 1,173,600
Derivative financial instruments, net liability position	\$ (9,000)	\$ (25,800)	\$ (9,400)	\$ (24,700)

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**18. COMMITMENTS**

The estimated future minimum lease payments under operating leases and purchase commitments for the next five years are as follows:

<i>(thousands of dollars)</i>	<b>Remainder of</b>					
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Thereafter</b>
Operating leases	\$ 22,106	\$ 40,433	\$ 36,483	\$ 34,778	\$ 33,842	\$ 178,644
Purchase commitments	19,984	30,220	6,999	2,549	-	-
	<b>\$ 42,090</b>	<b>\$ 70,653</b>	<b>\$ 43,482</b>	<b>\$ 37,327</b>	<b>\$ 33,842</b>	<b>\$ 178,644</b>

Purchase commitments primarily relate to various information systems and technology agreements as well as a billing system for our wireless services.

**19. RELATED PARTY TRANSACTIONS**

Bell Canada beneficially owns and controls 53.48 per cent (December 31, 2003 – 53.50 per cent) of our outstanding common shares as at June 30, 2004.

In the normal course of business, we had transactions with controlled investees of Bell Canada as follows:

**Transactions with controlled investees of Bell Canada**

<b>For the period ended June 30</b>	<b>Three months</b>		<b>Six months</b>	
<i>(thousands of dollars)</i>	<b>2004</b>	2003	<b>2004</b>	2003
Purchases of telecommunications and other services	\$ 29,421	\$ 32,734	\$ 56,163	\$ 63,277
Provisions of telecommunications services	\$ 36,940	\$ 34,146	\$ 76,413	\$ 69,148
Purchases of capital investments	\$ 90	\$ 885	\$ 923	\$ 1,712

Shares repurchased from controlled investees of Bell Canada under a normal course issuer bid, as described in note 11, were as follows:

<i>(thousands of dollars, except as otherwise noted)</i>	<b>Six months ended June 30, 2004</b>	Twelve months ended December 31, 2003
Shares repurchased	<b>714,784</b>	2,643,070
Value	<b>\$ 21,177</b>	\$ 83,388

These transactions are measured at market value.

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**19. RELATED PARTY TRANSACTIONS (Continued)**

Balances with controlled investees of Bell Canada are as follows:

<i>(thousands of dollars)</i>	<b>As at June 30, 2004</b>	As at December 31, 2003
Notes receivable	\$ 104,000	\$ -
Accounts receivable	\$ 21,080	\$ 13,792
Payables and accruals	\$ 8,947	\$ 8,579

As at June 30, 2004, we had notes receivable with Bell Canada in the form of a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 2.05 per cent per annum.

The accounts receivable from and payables and accruals to controlled investees of Bell Canada are non-interest bearing and under normal credit terms and have arisen from the sales of products and provision of services referred to above.

**20. JOINT VENTURES**

We hold an 87.14 per cent partnership interest in the joint venture Aliant ActiMedia.

The effect of proportionate consolidation of the joint venture on our consolidated financial statements is summarized as follows:

<b>For the period ended June 30</b> <i>(thousands of dollars)</i>	<b>Three months</b>		<b>Six months</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
<b>Consolidated statements of income</b>				
Operating revenues	\$ 28,191	\$ 26,113	\$ 29,983	\$ 27,876
Expenses	7,978	7,320	10,296	9,606
Operating income	\$ 20,213	\$ 18,793	\$ 19,687	\$ 18,270
<b>Consolidated balance sheets</b>				
Current assets	\$ 39,484	\$ 36,743	\$ 39,484	\$ 36,743
Long-term assets	293	246	293	246
Current liabilities	6,978	5,136	6,978	5,136
Net investment	\$ 32,799	\$ 31,853	\$ 32,799	\$ 31,853
<b>Consolidated statements of cash flows</b>				
Operating activities	\$ (39)	\$ (293)	\$ 79	\$ 576
Investing activities	-	20	(47)	(2)
Net cash flow	\$ (39)	\$ (273)	\$ 32	\$ 574

Included in cash flow from operating activities is cash distributions received by us from Aliant ActiMedia of \$7.0 million and \$13.7 million for the three and six months ended June 30, 2004, respectively (June 30, 2003 - \$7.7 million and \$13.9 million, respectively).

## **21. CONTINGENCIES**

- (a) We have had an action commenced against us by 132 former employees who took early retirement under a 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.
- (b) We have had an action commenced against us by Exigen Ltd. ("Exigen") in the State of California. 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. 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. The outcome of this matter is not determinable at this time.
- (c) The nine collective agreements between us and the Communications, Energy and Paperworkers Union of Canada and the Atlantic Communications and Technical Workers' Union representing approximately 4,300 of our unionized employees, expired on December 31, 2001. Despite continued negotiations with the council representing these unions since March 2002, and assistance from federal conciliators and mediators, the Company offer that was made on April 23, 2004 was rejected and a legal work stoppage commenced. The stoppage continues to be in effect. Although it is not currently possible to determine the outcome of future negotiations, we have accrued what is deemed by management to be adequate reserves.
- (d) On May 30, 2002, the CRTC released its price cap decision, that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers (ILECs) for the four years beginning June 1, 2002. The price caps decision requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market as a result of mandated rate reductions. The deferral account may be reduced by one or a combination of the following:
- Rate reductions for residential local services that are proposed as the result of competitive pressures;
  - Certain rate reductions for services provided to competitors;
  - The approval of exogenous factors for matters beyond control of the ILECs;
  - Rate increases less than the amount by which inflation exceeds productivity;
  - Subscriber rebates; and
  - Funding initiatives that would benefit residential customers in other ways.

**21. CONTINGENCIES (Continued)**

We await clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features. We have not recognized the deferral account as a liability in our financial statements because we are awaiting clarification from the CRTC. Given the circumstances outlined, we estimate the deferral account balance could be between \$1 million and \$28 million. A liability, should one arise, will be charged to operating income or capital as appropriate.

**22. COMPARATIVE FIGURES**

The comparative financial information has been reclassified to conform to the presentation adopted for 2004.