



ALIAN T INC.

2000 ANNUAL INFORMATION FORM

February 26, 2001

TABLE OF CONTENTS

ITEM 1 COVER PAGE.....	1
ITEM 2 CORPORATE STRUCTURE.....	3
NAME AND INCORPORATION	3
INTERCORPORATE RELATIONSHIPS	3
ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS.....	4
THREE YEAR HISTORY	4
STRATEGIC ALLIANCE WITH BCE AND BELL CANADA.....	66
SIGNIFICANT ACQUISITIONS AND DISPOSITIONS	77
TRENDS, COMMITMENTS AND UNCERTAINTIES	77
ITEM 4 DESCRIPTION OF THE BUSINESS.....	88
TELECOMMUNICATIONS	88
INFORMATION TECHNOLOGY.....	1919
REMOTE COMMUNICATIONS.....	2121
EMERGING BUSINESS.....	3031
ITEM 5 SELECTED CONSOLIDATED FINANCIAL INFORMATION.....	3434
THREE YEAR SUMMARY	3434
DIVIDEND POLICY.....	3435
ITEM 6 MANAGEMENT’S DISCUSSION AND ANALYSIS.....	3535
ITEM 7 MARKET FOR SECURITIES	3535
ITEM 8 DIRECTORS AND OFFICERS.....	3535
ITEM 9 ADDITIONAL INFORMATION	3838

ITEM 2 CORPORATE STRUCTURE

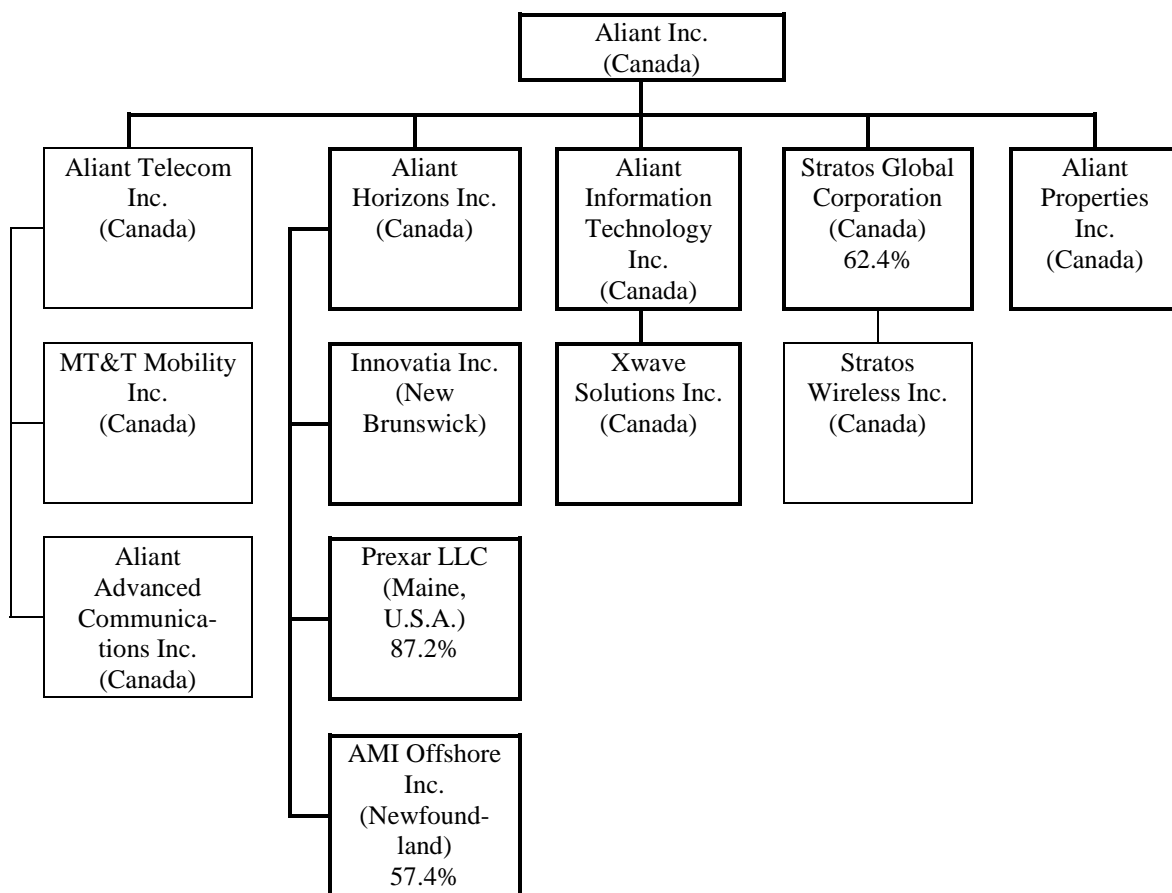
NAME AND INCORPORATION

Aliant Inc. (“Aliant” or “the Company”) was incorporated on March 9, 1999 as 3595641 Canada Inc. under the *Canada Business Corporations Act*. The Company was formed for the purpose of participating in a series of transactions which resulted in the combination of the businesses previously operated by Bruncor Inc. (“Bruncor”), Island Telecom Inc. (“Island Tel”), Maritime Telegraph and Telephone Company, Limited (“Maritime Tel”) and NewTel Enterprises Limited (“NEL”) (collectively referred to as the “Combining Companies”). The combination was effective May 31, 1999. The Company is engaged, through its subsidiaries, in four core lines of business: telecommunications, information technology, remote communications and emerging business.

The registered office of the Company is at 69 Belvedere Avenue, Charlottetown, Prince Edward Island.

INTERCORPORATE RELATIONSHIPS

The following diagram sets out the name of each direct or indirect subsidiary of the Company as at February 9, 2001, including the jurisdiction of incorporation, continuance, or organization of such subsidiary. Also indicated, where the percentage of outstanding common shares of the subsidiary owned by Aliant is less than 100%, the percentage owned by Aliant at February 9, 2001. There are no subsidiaries of the Company, other than ones which are set out below: (i) the total assets of which constitute more than 10 percent of the consolidated assets of the Company, (ii) the sales and operating revenues of which exceed 10 percent of the consolidated sales and operating revenues of the Company, or (iii) if combined with other subsidiaries not depicted below, would exceed the thresholds in (i) and (ii) if the references to 10 percent were changed to 20 percent.



ITEM 3 GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

Creation of Aliant

Over the past several years, the Combining Companies have developed, implemented and executed business plans that have been designed to provide substantial growth opportunities, both within and outside their traditional telecommunications businesses, and both inside and outside of their traditional territories. These business plans have been successful in maintaining and enhancing the profitability of each Combining Company within a demanding and increasingly competitive environment.

The Combining Companies decided in early 1999 that their combination, together with the development of a strong strategic relationship with BCE Inc. (“BCE”) and Bell Canada, would have benefits for their shareholders, customers, employees and other stakeholders. The benefits included:

- providing greater scale within their traditional territories that would allow for the maintenance of a competitive cost structure;
- permitting broader scope in the integration of the product lines of the Combining Companies for delivery of products and services throughout their traditional territories;
- providing more assured and cost-effective access to the technology and brands of Bell Canada and its partners for delivery within their traditional territories;
- permitting a greater scale of investment in the development and support of products and services to customers both inside and outside of their traditional territories;
- providing a larger platform from which to fund and evaluate growth opportunities, especially in remote communications services and emerging businesses, of the four Combining Companies. As a larger company, Aliant's portfolio of growth opportunities will benefit from the investment of additional capital. Aliant also has greater potential to export its products and services outside Atlantic Canada;
- achieving benefits from the merging of activities in the information technology business in order to develop further scale in specific industry capabilities; and
- creating a much more significant market capitalization and public float, which will provide substantially greater liquidity and the opportunity for significant institutional exposure for the shares of Aliant in comparison to the capital markets presence of each of the Combining Companies individually.

As a result of the combination, the Combining Companies expected to annually save \$86 million in cash operating costs and \$50 million in capital expenditures on an run-rate annualized basis by mid 2001. By December 31, 2000, estimated operating cost savings for the year were \$47.1 million, and the run-rate-annualized targets have been met. Synergies are being realized from the consolidation of functional support areas and the combined purchasing power. One-time restructuring costs to achieve these savings were recorded in 1999 amounting to \$78.0 million (\$42.5 million after tax) which included voluntary early retirement programs, employee transfer costs and other costs resulting from merger integration activities. By December 31, 2000, 513 employees had accepted the early retirement plan and were leaving the Company.

Organization into four lines of business

Aliant organized the various corporate entities under its ownership into four lines of business – telecommunications carried out primarily by Aliant Telecom Inc. (“Aliant Telecom”), information technology through Aliant Information Technology Inc. (“Aliant IT”), remote communications through its majority ownership of Stratos Global Corporation (“Stratos”) and emerging businesses organized under Aliant Horizons Inc. (“Aliant Horizons”). Not representing a line of business, Aliant Properties Inc. (“Aliant

Properties”) holds the real estate assets of Aliant, a number of which were sold during 2000.

Amalgamation of Aliant Telecom

Effective January 1, 2001, Aliant Telecom amalgamated (the "Amalgamation") with most of its wholly owned subsidiaries including Island Tel, Maritime Tel & Tel Limited (MTT), NBTel Inc. (NBTel) and NewTel Communications Inc. (NewTel), (collectively the ATI Telcos) and NewTel Mobility Limited (NewTel Mobility).

Effective with the Amalgamation, Aliant Telecom assumed all of the assets and obligations of the amalgamating companies, including the ATI Telcos. Most of the assets of Island Tel, MTT and NewTel were subject to mortgages and charges securing first mortgage bonds issued by these companies. Prior to the Amalgamation, on December 15, 2000, the holders of these first mortgage bonds approved certain changes to the trust indentures governing those bonds. These changes included (i) limiting the mortgage and charge created by the trust indentures to include only that real and tangible personal property located in the province where each company had maintained its primary operations (Prince Edward Island, Nova Scotia and Newfoundland, respectively); (ii) revising the provisions under which the indenture trustee is authorized to release the mortgage and charge, and (iii) prohibiting each company from issuing additional bonds under those trust indentures. The changes were necessary to ensure that, on amalgamation, the mortgage and charge created by these trust indentures did not extend to all of the property of Aliant Telecom and thereby violate the negative pledge provisions contained in Aliant Telecom's trust indenture and other trust indentures of the ATI Telcos.

Appointment of new officer positions

On February 5, 2001, it was announced that Gerald L. (Gerry) Pond would become President of Aliant Telecom in addition to his current duties as Executive Vice President of Aliant and President, Emerging Business. This appointment is effective March 1, 2001, co-incident with the retirement of Colin Latham from the position. Also, effective February 26, 2001, J.A. (Jay) Forbes was appointed Executive Vice-President and Chief Financial Officer of the Company.

STRATEGIC ALLIANCE WITH BCE AND BELL CANADA

Aliant and the Combining Companies entered into a Memorandum of Agreement dated March 19, 1999, as amended, with BCE and Bell Canada. This long term strategic alliance agreement provides for an orderly transition and continuity of the business relationships between them and summarizes the understanding of the parties with respect to a strategic alliance for the provision and delivery of telecommunications services.

The agreement identifies the Atlantic Provinces as the traditional territory of Aliant and Quebec and Ontario as the traditional territory of Bell Canada. The agreement provides that Aliant is the vehicle by which telecommunications services will be offered in Aliant's territory, and commits BCE and Bell Canada to the development and growth of a strong and independent Aliant. It assures that Aliant is Bell Canada's preferred supplier

of telecommunications services offered in the Atlantic Provinces. It identifies specific areas of co-operation for the purpose of providing a seamless delivery of services.

Aliant gains access to Bell Canada's technology, the exclusive right to use specified Bell Canada trademarks in its traditional 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 Aliant. Each party has agreed to provide the other with support services, including access to operational support and technical, marketing, training and similar assistance. Aliant and Bell Canada will attempt to achieve benefits resulting from a pooling of their requirements such as the aggregation of traffic and purchasing requirements.

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

On January 27, 2000, BCE took up and accepted for purchase 15,800,000 common shares of Aliant, which had been tendered by Aliant shareholders under BCE's cash tender offer. After this purchase, effective as of April 27, 2000, BCE's direct and indirect ownership of Aliant increased from 41.4% to 53.1% of the outstanding shares of the Company, making Aliant a majority-owned subsidiary of BCE.

SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

Aliant's subsidiaries made a number of acquisitions throughout 2000, however, there were none that (i) the total assets of which constitute more than 20 percent of the consolidated assets of the Company, (ii) the investment in and advances to exceed 20 percent of the consolidated assets of the Company, or (iii) the net income of which exceeds 20 percent of the income of the Company.

Aliant did not make any significant dispositions during the year 2000.

TRENDS, COMMITMENTS AND UNCERTAINTIES

In addition to the trends and uncertainties involved in the operations of each line of business as discussed more completely below in Item 4 under the headings "Competition", "Regulation", "Technology" and "Litigation", the following are risks that management has identified as having the potential to have a material effect on Aliant's financial condition or results of operation:

Guarantee of Stratos Debt

Aliant has guaranteed US\$150 million (about Cdn\$225 million) of the obligations of Stratos incurred under credit facilities provided to Stratos by a syndicate of Canadian banks to finance the acquisition by Stratos of the Inmarsat, VSAT and aeronautical

businesses of British Telecommunications plc (the "BT A&M" assets). The guarantee by Aliant assisted Stratos in securing the financing necessary to complete this acquisition. Stratos' credit facilities contain various covenants relating to future financial results. There can be no assurance that Stratos will meet these covenants and that Aliant will not become liable for Stratos' debt to the extent of the guarantee.

Integration of BT A&M acquisition

The total debt of Stratos after this acquisition on December 31, 2000, represents 71.5% of its total capitalization. This is a significant debt burden to service and will require Stratos to raise additional equity financing in order to restore a more appropriate capital structure. Under the terms of the credit facilities with the Stratos' banking syndicate, Aliant will be required to participate in any additional equity financing by Stratos. It may be difficult for Stratos to issue sufficient equity in the near future unless the BT A&M acquisition can be integrated into Stratos' existing operations efficiently and Stratos can achieve operating synergies expected from the acquisition.

Stratos faces challenges in being able to integrate the BT A&M business as it will approximately double the size of Stratos' existing operations, placing pressure on operational and support systems. Stratos has increased the depth of its management and support team and its infrastructure system and is very focused on achieving the synergy targets set for this acquisition.

ITEM 4 DESCRIPTION OF THE BUSINESS

TELECOMMUNICATIONS

The telecommunications line of business consists of 100%-owned Aliant Telecom and its subsidiaries, as well as Aliant's 87% partnership interest in Aliant Acti-Media (formerly Tele-Direct Atlantic).

Development of the business

Aliant Telecom was incorporated on August 4, 1999, as the holding company for Aliant's telecommunications subsidiaries.

Measured by revenues, Aliant Telecom is Canada's third largest full-service telecommunications business. Aliant Telecom provides a full range of voice and data communications services including local, long-distance, data, Internet and other wireline and wireless services.

Segment results

The Aliant telecommunications group had revenues of \$1.8 billion, net income of \$204.6 million and assets totaling \$2.7 billion for the year ending and as at December 31, 2000. The following table summarizes the telecommunications operating results for 2000 and 1999.

Telecommunication operating results (*Thousands of dollars*)

	2000	1999	% change
Operating revenue	\$1,784,364	\$1,644,330	8.5
Operating income (<i>before restructuring costs</i>)	475,092	434,124	9.4
Operating income	475,092	356,124	33.4
Net income	204,615	143,158	42.9

Products and services*Local service*

Local service revenues are derived principally from the provision of network access service to residence and business customers, local data access service, telephone set rentals and enhanced service options. Local services are also offered in service bundles or packages, which may include some long-distance and Internet services. Contribution payments for access to Aliant Telecom's local network by long-distance carriers, including the long-distance operations of Aliant Telecom, are also included in local revenues.

The following is a breakdown of local revenues, showing revenues from external customers, from other Aliant lines of business and from Aliant's controlling shareholder, Bell Canada:

Local revenues (<i>in thousands of dollars</i>)	2000	1999
Revenues from external customers	\$ 847,476	\$ 849,678
Revenues from other Aliant lines of business	5,739	637
Revenues from Bell Canada and BCE	-	-
	\$ 853,215	\$ 850,315

Long distance service

Long distance service revenues are derived from toll service and network services. Toll service consists of basic message toll service, including long distance services, which are carried out by a variety of calling plans. Network services include private line voice services and business data services. Business data services are offered to customers to meet a wide variety of their needs, including public digital packet switched communications networks through such plans as DataPac, and digital private line services through such plans as DataRoute and MegaStream/MegaRoute.

The following is a breakdown of long distance revenues, showing revenues from external customers, from other Aliant lines of business and from Aliant's controlling shareholder, Bell Canada:

Long distance revenues (in thousands of dollars)	2000	1999
Revenues from external customers	\$ 415,244	\$ 421,353
Revenues from other Aliant lines of business	11,495	4,312
Revenues from Bell Canada and BCE	13,034	12,780
	\$ 439,773	\$ 438,445

Wireless

Wireless services include the cellular, paging and other mobile communications provided by Aliant Mobility, a division of Aliant Telecom. Cellular and paging services are offered through various plans for consumer and business customers.

2000 saw the continued expansion of Aliant Telecom's digital cellular service to provide coverage in major urban centres in all four Atlantic provinces and, at 35% population coverage is the largest digital footprint in Atlantic Canada. In October 2000, Aliant Mobility began offering a new suite of wireless data services called *WireFree*, enabling customers to access the Internet and e-mail from their web-enabled digital cellular phones or other hand-held computing devices at speeds up to 14,400kbps. In September 2000, *OceanCell* services were launched, providing analog cellular services to the Sable Island (Nova Scotia) offshore area.

The following is a breakdown of wireless revenues, showing revenues from external customers, from other Aliant lines of business and from Aliant's controlling shareholder, Bell Canada:

Wireless revenues (in thousands of dollars)	2000	1999
Revenues from external customers	\$ 216,279	\$ 185,723
Revenues from other Aliant lines of business	20	-
Revenues from Bell Canada and BCE	-	-
	\$ 216,299	\$ 185,723

Other telecommunications services

Other telecommunications revenues are derived from Internet services, telephone directory advertising, equipment sales, consulting services and new services such as *VibeVision*.

The following is a breakdown of other telecommunications revenues, showing revenues from external customers, from other Aliant lines of business and from Aliant's controlling shareholder, Bell Canada:

Other revenues (in thousands of dollars)	2000	1999
Revenues from external customers	\$ 264,109	\$ 169,847
Revenues from other Aliant lines of business	-	-
Revenues from Bell Canada and BCE	10,968	-
	\$ 275,077	\$ 169,847

For a complete discussion on the operating results of the telecommunications line of business please refer to document entitled "Management's Discussion and Analysis for the Year Ended December 31, 2000" which is incorporated herein by reference.

Aliant Telecom and its predecessor companies have been influenced over the last five years by increasing competition in businesses that were formerly regulated monopolies and changes in regulation. These are described below under the headings "Regulation", and "Competition". Also, rapidly advancing technology is evolving the business more towards Internet-based, data and wireless services. This transition creates challenges in the form of shorter asset lives for new investments and opportunities in the form of new sources of revenue and growth.

Regulation

General

As "Canadian carriers", the ATI Telcos were, and Aliant Telecom is now, regulated by the Canadian Radio-television and Telecommunications Commission ("CRTC" or "Commission") pursuant to the *Telecommunications Act*. The Commission has broad powers with respect to the terms and conditions of provision of telecommunications services by Canadian carriers, subject to its power to forbear from regulation as described below under the heading "Forbearance". That is, unless the CRTC has decided to forbear from the regulation of certain services, a Canadian carrier is required to, among other things, file tariffs for approval with the CRTC for the rates and terms and conditions of the services it offers and obtain approval of all agreements it may enter into with other telecommunications carriers for the exchange of telecommunications traffic.

Price cap regulation

In a 1994 decision, the CRTC announced that it would introduce price cap regulation for utility services beginning January 1, 1998. The CRTC established a price cap plan for the telephone companies, including the ATI Telcos (and now Aliant Telecom) that is in effect from January 1, 1998 until December 31, 2001. It provides that the companies may increase or decrease prices of those utility services that are subject to price cap regulation, so long as the aggregate of prices for those services does not exceed an index

(the “price cap index” or “PCI”). The PCI is adjusted each year by the rate of inflation less a “productivity offset” of 4.5%, plus or minus an “exogenous factor” for matters beyond the control of the telephone companies.

The PCI is applied to a “basket” of utility services offered by telephone companies including residential local services and single and multi-line local business services. Residential local services are subject to further pricing constraints in that prices for those services cannot increase, on average, by more than the inflation rate. Certain utility services, such as optional local services, are not subject to price caps.

In anticipation of the end of the initial price cap period at the end of 2001, the Commission has initiated a review of the price cap regime. In a related matter, in November 2000, the Commission announced changes to the contribution collection mechanism as discussed below under “Contribution”. Additional proceedings during 2001 are expected to consider such items as whether and in what form the price cap regime should be continued. Industry members, including Aliant Telecom, Bell Canada, long-distance and local competitors, and representatives of consumer interest groups are participating in a series of negotiations in order to arrive at a collaborative proposal to submit to the CRTC in advance of these review proceedings.

Contribution

Currently all long-distance service providers, including Aliant Telecom, are required to make contribution payments based on their eligible long-distance minutes. Prior to 2001 these payments were made into regional pools to be “withdrawn” by local service providers, including Aliant Telecom, to subsidize certain high-cost residential services. Commencing in 2001 a national pool will replace the regional ones and the basis for determining the amount of contribution to be paid by the service provider changes from toll minutes to a 4.5% “tax” on all eligible revenues. The impact of the decision is to broaden the base of service providers making contribution payments and to broaden the base upon which contribution is assessed. In 2001 this has the impact of reducing the amount of contribution costs to ATI. Further, in 2002 the calculation of the amount of contribution subsidy required to be paid into the national fund changes as well. .

Starting in 2002 the contribution revenue shortfall will be determined based on “Phase II” costs, which are incremental costs, rather than “split rate base” costs, which was an allocated costing model. Aliant Telecom estimates that the net effect of this decision will be neutral to positive on its earnings. The decision is being appealed by several parties and the outcome of such appeals is not known at this time.

For 2001, the last year of the current price-cap period, utility service providers may consider the 4.5% contribution payment as an “exogenous factor” in determining the PCI that will be applied to its local service prices for the year.

Forbearance

The CRTC has the power to forbear from exercising its regulatory powers, in whole or in part and conditionally or unconditionally, where it is satisfied that to do so would be

consistent with Canadian telecommunications policy objectives. With increasing competition in telecommunications, the CRTC has found it appropriate, in several circumstances and to varying degrees, to forbear from regulating the telephone companies and their competitors with respect to the services they offer.

Between 1994 and 1999 the CRTC granted forbearance for many telecommunications services including the sale of terminal equipment, packet switched data services, frame relay services, electronic messaging and information services, voice long distance services, high-speed private line services on certain major routes, mobile wireless services (including paging, cellular, PCS, mobile data and two-way radio) and Internet services.

During 2000 the CRTC granted forbearance from regulation of wide area network (WAN) services, while an application for forbearance of digital network access services was denied on the basis that competition for these services had not been sufficiently developed at this time.

Broadcast distribution

In 1998 NBTel became the first telecommunications company in Canada to be granted the right to obtain a broadcast distribution undertaking ("BDU") by the CRTC. The BDU allows Aliant Telecom to provide television services through its broadband network in Saint John and Moncton. In January 2000, NBTel launched interactive television services (*VibeVision*TM) in Moncton and in May it was launched commercially in Saint John.

In August 2000, MTT received approval from the CRTC of its application for a BDU to provide broadcast services in the Halifax Regional Municipality. *VibeVision* is currently undergoing an employee launch in Halifax and will be launched commercially early in 2001. Since the Amalgamation on January 1, 2001, Aliant Telecom has become the holder of the BDUs in Moncton, Saint John and Halifax.

Amalgamation

The Amalgamation of the ATI Telcos into Aliant Telecom poses no special regulatory concerns. Alignment of such items as tariff rates for services and depreciation rates was, and will continue to be, accomplished gradually with the consultation and approval of the CRTC where necessary.

Competition

Through the decade of the 90's, the CRTC has implemented a policy of introducing competition in various aspects of the telecommunications business, which were formerly regulated monopolies. Major steps were taken in 1990 with the allowance of resale of telephone service to provide long distance services, in 1992 with the allowing of voice long distance service competition by carriers using their own network facilities, and in 1997 with the allowance of competition in the provision of local services. The Commission has adjusted the regulatory framework as competition has become

established. Initially, a number of competitive safeguards were imposed limiting the ability of the incumbent telephone companies to bundle services in offerings to customers, and restricting their ability to reduce prices. As competition has increased, certain of these safeguards have been reduced or withdrawn, and regulation of certain services has been forborne in whole or in part. (See the section above entitled "Forbearance")

Other aspects of the telecommunications business have been competitive for much longer or since their inception, including private line and data services, sale of telephone terminal equipment, telephone directory advertising and cellular and other wireless services. Virtually all aspects of Aliant's telecommunications business are now subject to competition. It is not dependent on any single customer for 10 percent or more of its revenues or income, but larger business customers do account for a significant portion of its revenues.

Local

In compliance with regulatory requirements, Aliant Telecom put in place the software, equipment and procedures to allow for local number portability ("LNP"), local network interconnection ("LNI") and the resale of local loops throughout the Atlantic region as required. There are a number of competitive local exchange carriers ("CLECs") operating in the region with particular focus on the business market in the Halifax and St. John's areas. One of these CLECs also offers residential access service, mainly in the Halifax market. Aliant Telecom expects that the degree of local competition will continue to grow in 2001.

Long-distance

Long-distance competition continued to be strong in 2000. There are over 30 competitors for long-distance services in Atlantic Canada, offering flat-rate monthly pricing packages and discounted per-minute rates in both the residential and business markets. Management expects these pressures to persist and long-distance margins will continue to narrow, although the pace at which prices are falling in Atlantic Canada has moderated. Aliant Telecom continues to focus on maintaining margins through improved efficiency and stable market share. Aliant Telecom estimates its share of the Atlantic Canada long-distance market was 88% at the end of 2000, up from about 86% at the end of 1999. Increasing market share in the face of intense competition was achieved primarily through the bundling of long distance with other services such as local and Internet services.

Wireless

In its wireless business, Aliant Telecom faces three competitors for paging services and two competitors for cellular services. A third cellular competitor has a limited presence in the region by way of offering roaming facilities to other national carriers. Aliant Telecom estimates it holds approximately 75% of the cellular market in Atlantic Canada. Although some additional cellular market share could be lost to new competitors, management is confident superior service offerings, competitive pricing and greater

coverage will help the Company retain a strong market position. This market leadership was evidenced in 2000 by the extension of prepaid cellular services and a wireless data network across the four Atlantic provinces. Also, market and technology conditions are being closely monitored to ensure additional digital services, such as *WireFree*, are deployed at the time that best serves customer needs.

Aliant Telecom, together with other mobility affiliates of Bell Canada, bid for additional Personal Communications Services (PCS) wireless spectrum that was auctioned by Industry Canada in January 2001. Through a successful bid, Aliant Telecom was able to acquire five new PCS spectrum licenses for Atlantic Canada. This additional spectrum will allow Aliant Telecom the flexibility to offer new “third generation” wireless services as market and network-capacity conditions dictate. Existing competitors, as well as new entrants, also participated in the auction, however no new entrants were successful in obtaining licenses for the region. The number of competitors may still increase as existing wireless system operators may choose to sell their additional wireless capacity, in bulk, to other competitors for resale to the public.

Internet and interactive television

Aliant Telecom is the major Internet service provider (ISP) in Atlantic Canada, with an estimated market share of 69% of the dial-up market. In addition to dial-up service, which is available throughout the region, Aliant Telecom offers high-speed Internet services to a growing number of Atlantic communities. High-speed capability now passes 450,000 homes in Atlantic Canada and this is expected to increase to approximately 635,000 homes by year-end 2001 through continued investment in digital subscriber line (DSL) technologies. Aliant Telecom estimates it holds about a 63% market share in high-speed services, its major competitors being cable television companies. Competition exists throughout the region for both Internet dial-up and high-speed services. However, Aliant Telecom’s focus on quality, customer service, and its range of applications, along with the dedicated two-way access on its high-speed network, is expected to enable it to maintain a strong market position into the future.

Aliant Telecom considers the growth and retention of the Internet customer base to be a key component in its strategy to build its interactive multimedia business and migrate it to a broadband network. Aliant Telecom competes with cable service providers in the digital television service market, where its *VibeVision* service is now offered in Moncton and Saint John. Also, a broadcast distribution license has been granted by the CRTC for Aliant Telecom to serve Halifax, and this launch is planned for 2001. In the future these services will be offered in other areas of the Atlantic Provinces assuming favourable market conditions, the economics of available technology, and the approval of the CRTC.

Technology

The major technological challenge facing Aliant Telecom over the coming years is to deploy a “next generation network” infrastructure that takes into account shortened product life cycles and facilitates the convergence of different market segments – all while satisfying customer demands for new products and services at competitive prices. Technological advances may also affect Aliant Telecom’s level of earnings by shortening

the useful life of some of its assets. Retention of customers for longer terms becomes even more important due to the high up-front costs of new technology. Further, technological advances may well emerge that could reduce the costs of plant and equipment, and eliminate or reduce barriers that deter other companies from competing in particular market segments. The merger into Aliant and the formation of Aliant Telecom has partially addressed this technology risk as the larger organization can now spread resources, investment and knowledge across the region. At the time of the merger the potential for \$50 million in annual capital expenditure savings was identified. By the end of 2000, \$32 million of these savings measures had been implemented and the annual rate of \$50 million will be reached by June 2001.

In addition to being a source of new revenue streams, advancing technology is also enabling Aliant Telecom to reduce costs in certain areas. The Internet brings an opportunity to provide customers with self-serve options, greatly reducing the costs of customer transactions.

Aliant Telecom has made fairly significant investments in the last four years in advancing the capacity and scope of its broadband multimedia network. Evolving the communications network to be able to carry and manage broadband services is essential to the future growth of Aliant. Many of the revenue sources that hold the greatest growth potential in the next few years involve services that are now or soon will be offered over this network. These include Internet, e-commerce, broadband data transmission and interactive television services. At this time there is no assurance that broadband technologies and services will continue to be developed according to anticipated schedules, that they will perform according to expectations, or that they will achieve commercial acceptance to the degree necessary to make these investments profitable.

Alliances

Stentor

The ATI Telcos were members of Stentor, a working association of nine provincial Canadian telephone companies. The Stentor alliance went through major changes in 1999 as the member companies decided to pursue independent, competitive service development and marketing strategies. Stentor managed the interconnections which provide long distance telephone and data transmission facilities across Canada, established operating procedures to expedite the handling of long distance calls within Canada and internationally, and administered the system of financial transactions among the members and with international carriers for the settlement of revenues for these services. Through Stentor, the members formed an alliance with MCI Telecommunications Corp. for the development and delivery of a portfolio of advanced network services. Additionally, the members were parties to agreements with AT&T, MCI WorldCom, Sprint, Teleglobe Canada and others that provide for interconnecting international telecommunications services. Stentor also served a role in research and development, national marketing and government-relations.

As of January 1, 1999, certain functions previously carried out by Stentor were assumed by the individual member companies. Functions of continuing value that were returned to the individual member companies were made available to other members on a contracted basis. The connecting agreement and the related governance agreement under which Stentor had operated was terminated effective December 31, 1999. Effective January 1, 2000, Bell Canada took over the remaining activities previously provided by Stentor, offering these services to the former member companies on a contractual cost recovery basis. It is expected that these costs will be reduced because of the synergy gains from the amalgamation with similar operations existing in Bell Canada.

Mobility Canada

The cellular operating divisions or affiliates of the Stentor member companies formed Mobility Canada, of which Aliant Telecom and its mobility affiliates are members. This alliance has provided coordination of cellular coverage across Canada and coordination of agreements with cellular service providers elsewhere. It also provided national marketing and certain shared administrative functions, such as financial settlements among the member companies and with other cellular service providers, and national billing infrastructure.

As in the case of Stentor, the members of Mobility Canada in 1999 decided to pursue independent, competitive service development and marketing strategies. Accordingly, Mobility Canada no longer provides national marketing and this function has been assumed by the member companies. Mobility Canada continues to provide certain shared administrative functions to the member companies on a contract basis.

New Alliance Agreements

In 1999 agreements were signed for an alliance with BCE's new national broadband and Internet provider company, BCE Nexxia Inc. ("Nexxia"). Under these agreements Aliant Telecom provides network and access facilities to Nexxia in the Atlantic Provinces, and provides and distributes Nexxia services to customers in the Atlantic Provinces. Aliant Telecom obtains access to Nexxia intellectual property, and access to a highly advanced national broadband network over which to offer many of its innovative applications.

Throughout 1999 and 2000, Aliant Telecom conducted negotiations for other specific agreements necessitated by the wind-down of the Stentor alliance, and to give definition to a new alliance with Bell Canada, MTS Communications Inc. and Saskatchewan Telecommunications. These include an Operational Support Services agreement with Bell Canada for the provision of former Stentor services, a revised arrangement for revenue settlement, the final requirements for the formal windup of Stentor, and a sub-license for the exclusive provision of MCI WorldCom Inc. On-Net Services to Aliant Telecom's customers.

New terms for interconnection and exchange of traffic with Telus Communications Inc. and Telus Communications (B.C.) Inc. were also negotiated.

Property

The physical property of Aliant Telecom consists of land, buildings, towers, plant and equipment including poles, wire, cable, underground conduit, microwave radio relay equipment, fibre optic cable and equipment, motor vehicles, office furniture, materials and supplies, other miscellaneous equipment and construction in progress. As at December 31, 2000, the gross value of the property amounted to approximately \$4.7 billion and the net book value was approximately \$2.1 billion. Aliant Telecom's buildings together with its other plant, apparatus and equipment are located throughout Atlantic Canada.

Research and Development

In 2000, the telecommunications group spent approximately \$2.5 million on research and development of new telecommunications products and services for its customers and for more cost-effective operation of the telecommunications network.

Environmental Matters

Aliant Telecom has adopted an environmental plan based on conducting its business affairs in a manner which protects people and their environment. The costs of these environmental plans are included in the capital expenditure program and are not expected to have a material impact on future years' earnings. As well, management is not aware of any environmental matters that materially threaten the Company's future earnings or financial position.

Employee Relations

As of December 31, 2000, Aliant Telecom had 6,692 employees (1999 – 6,945).

Approximately 60% of the employees in the telecommunications line of business are covered by the terms of collective agreements:

In PEI, there are collective agreements with the union locals representing clerical staff, operators, craft employees and first level managers. Contracts with the Communications, Energy and Paperworkers Union of Canada ("CEP") representing PEI operators, clerical and craft employees expire on January 5, 2002. The agreement with first level managers, which expired January 1, 2000, is still under negotiation. The conciliation process has been exhausted and discussions are currently stalled.

In Nova Scotia, there are collective agreements with the Atlantic Communication and Technical Workers Union representing craft and clerical workers and operators. These contracts have an expiration date of December 31, 2001.

In New Brunswick, there are collective agreements with the CEP union local representing operators and technical employees. These contracts expire on March 29, 2003. During 2000, CEP undertook an organizing drive among support services employees and subsequently filed an application with the Canada

Industrial Relations Board ("CIRB" or the "Board") to represent these employees. The application remains before the Board.

In Newfoundland, there is a collective agreement with the CEP union local representing operators, clerical and craft employees. This agreement expires on December 31, 2001.

In October 2000, Aliant Telecom filed an application with the CIRB seeking single employer designation and a review of the current bargaining unit structure. The position taken in the application is that a single bargaining unit and a single collective agreement is the most appropriate future structure. The application remains before the Board.

A total of 513 employees accepted a voluntary early retirement program offered in November 1999. During 2000, 482 of those employees left the organization as a result, with the remainder scheduled to leave in early 2001.

INFORMATION TECHNOLOGY

Aliant's information technology line of business is conducted through 100%-owned Aliant Information Technology Inc. ("Aliant IT"). Aliant IT was incorporated on August 4, 1999, as the holding company for Aliant's interests in MITI Information Technology Inc. ("MITI") and Xwave Solutions Inc. ("xwave").

Development of the business

MITI was acquired in April 1998 by Bruncor and was amalgamated with Datacor/ISM Information Systems Management Atlantic Corp ("Datacor") in September 1998. In 1998, NBTel acquired 100% ownership of Datacor by purchasing a 49% voting interest from two minority shareholders. xwave was formed in December 1998 by amalgamating several subsidiaries of NEL, namely NewTel Information Solutions Limited, Paragon Information Systems Inc., Minerva Technology Inc. and 10735 Newfoundland Limited (a holding company for a wholly owned US-subsiary, Minerva Technology, Inc., now Xwave Solutions Corp.), and the information technology division of MTT.

During 1999, Aliant IT expanded its information technology business segment with a series of acquisitions. In February, MITI acquired the information technology business of Keltic Technologies Group Inc. adding 80 employees with operations in Newfoundland, Nova Scotia and New Brunswick. In March 1999, MITI also acquired the assets and operations of Galahad Information Systems, an Ontario-based IT company with 11 employees. In April 1999, xwave acquired Software Kinetics Ltd. adding 270 employees in Halifax and Ottawa.

During 2000 Aliant IT consolidated and simplified its corporate structure. Aliant IT acquired the minority interests in xwave and MITI previously held by arm's-length parties. On August 31, in order to clarify and focus its brand in the market, MITI and xwave were merged and have since been carrying on business under xwave's name.

In early 2000, Aliant Telecom transferred 165 information technology employees to xwave. On January 31, 2000, xwave acquired Prior Data Sciences Ltd. with over 250 software and systems specialists and offices in Ottawa, Toronto, Montreal and Halifax. Then in July, xwave acquired the operations of MCW Business Systems Ltd., a Toronto-based IT-product fulfilment enterprise. During the fall of 2000, xwave established a subsidiary in Dublin, Ireland, operating as Xwave Solutions (Ireland) Inc. In December 2000, xwave purchased a 75% interest in Central Computer Associates, doing business as TechKnowledge Inc., a network services, systems integration and hardware supplier based in Maine.

xwave is an information technology ("IT") consulting and fulfilment company with an established national presence and a growing presence in the United States and Europe. xwave has more than 2,300 professionals and is Canada's second largest Canadian-owned information technology services company on a gross revenue basis. xwave has offices throughout Atlantic Canada, in Montreal, Ottawa, Toronto, Calgary, Edmonton, Dallas, Texas and Dublin, Ireland.

Segment results

Aliant IT had revenues of \$331.4 million, net income of \$13.5 million and assets totaling \$229.2 million for the year ending and as at December 31, 2000. The following table summarizes the IT operating results for 2000 and 1999.

Information technology operating results (*Thousands of dollars*)

	2000	1999	% change
Operating revenue	\$ 331,385	\$ 252,642	31.2
Operating income	27,769	23,646	17.4
Net income	13,476	11,451	17.7

The following is a breakdown of IT revenues, showing revenues from external customers, from other Aliant lines of business and from Aliant's controlling shareholder, Bell Canada:

IT revenues (<i>in thousands of dollars</i>)	2000	1999
Revenues from external customers	\$ 195,602	\$ 182,240
Revenues from other Aliant lines of business	135,783	70,402
Revenues from Bell Canada and BCE	-	-
	\$ 331,385	\$ 252,642

For a complete discussion on the operating results of the information technology line of business please refer to the document entitled "Management's Discussion and Analysis for the Year Ended December 31, 2000" which is incorporated herein by reference.

Research and Development

In 2000, the information technology group spent approximately \$2.5 million on research and development.

Employee Relations

As of December 31, 2000, Aliant IT and its subsidiaries had 2,365 employees, up 40.2% from 1,687 at the end of 1999. The employee base is non-unionized.

REMOTE COMMUNICATIONS

Aliant's remote communications business segment is carried out through its ownership in Stratos. During 2000, Aliant's ownership in Stratos was reduced from approximately 65% to 62% through options exercised by minority shareholders of Stratos and by a Stratos share issue in April in which Aliant participated at 60.75% (its then fully-diluted interest). Aliant, through NEL, first took a controlling position in Stratos in September 1998.

Stratos is publicly traded on The Toronto Stock Exchange under the trading symbol "SGB".

General Development of Stratos

Stratos began as an investment/management company which made equity investments in a variety of different operating entities, including a 24.5% equity investment in Stratos Wireless Inc. ("SWI"). Commencing in 1995, Stratos began a series of transactions, which resulted in its ownership interest in SWI increasing from 24.5% to 55% in 1996 and, ultimately, to 100% in 1998. The effect of these and other transactions (through which Stratos has divested its non-core assets) has been that Stratos is now exclusively in the business of providing remote satellite and microwave communications solutions to high volume customers in a variety of industries.

In August 1998, Stratos acquired MarineSat Communications Network, Inc. ("MCN") of Jupiter, Florida. MCN is the largest distributor of maritime telecommunications services to coastal and commercial vessels and private yachts using the American Mobile Satellite Corporation ("AMSC") satellite.

In September 1998, Stratos acquired Teleglobe Canada's Inmarsat-related mobile communication satellite assets (the "Teleglobe Assets"), including its 29% equity interest in SWI. As part of the acquisition, the Canadian federal government designated SWI as the Canadian Inmarsat Signatory in place of Teleglobe Canada.

In October 1998, Stratos acquired the maritime mobile satellite business of AMSC. The assets acquired included 3,300 marine satellite ("MSAT") maritime terminals and approximately 3,000 active customers. In addition, Stratos entered into a four-year distribution agreement, which placed it atop the AMSC maritime distribution chain.

On November 18, 1998, Stratos acquired Nova-Net Communications, Inc. (“Nova-Net”). Nova-Net is a specialized provider of data communications networks utilizing very small aperture terminal (“VSAT”) technology.

On March 13, 2000, Stratos entered into a definitive agreement with Rig Telephones, Inc., a Louisiana corporation, doing business as Datacom (“Datacom”) to acquire the assets of Datacom. The transaction closed in October 2000 with Stratos paying US\$44.25 million. Datacom, based in Lafayette, Louisiana, uses a digital microwave system in the Gulf of Mexico to provide voice and data communications solutions, including Internet access and network connectivity, to more than 500 customers. Datacom is also a licensed competitive local exchange carrier in Louisiana and Texas.

On April 7, 2000, Stratos completed the acquisition of Shell Offshore Inc.’s telecommunications subsidiary, Shell Offshore Services Company (“SOSCo”), paying US\$76.2 million. Based in New Orleans, Louisiana, SOSCo uses a digital microwave system to provide voice, data and video services, Internet access and network connectivity to over 250 remote drilling rigs and production platforms located offshore in the Gulf of Mexico. Additionally, SOSCo is a licensed competitive local exchange carrier with central switches in New Orleans, Houston and Lafayette providing local and long distance telephone services to its offshore and traditional telecom customers.

On July 31, 2000 Stratos completed the acquisition of the assets of Seven Seas Communications, Inc. (“Seven Seas”). Seven Seas is the largest non-facilities based provider of global and regional satellite communication solutions to customers in the Americas. Seven Seas offers a full suite of products including Inmarsat, MSAT and Globalstar, as well as value-added services and customer care support. Seven Seas has built a leading position in key and maritime vertical market segments including natural resources, commercial fishing and yachting.

Effective December 31, 2000, Stratos finalized the acquisition of British Telecommunications plc’s Aeronautical and Maritime Division (“BT A&M”) for £157 million. BT A&M provides a full range of Inmarsat, VSAT and terrestrial solutions to customers around the world and in a variety of industries including maritime, oil and gas, banking and aeronautical. BT A&M operate four teleports including two earth stations, located in the southwest of England and in New Zealand, which provide global Inmarsat services. This acquisition has transformed Stratos into the second largest Inmarsat provider in the world, with a solid entry into the North Sea oil and gas market and a strengthened ability to serve customers in Europe, the Middle East, Asia and Africa.

Products and services

Stratos is a vertically-integrated satellite service provider that either owns and operates its own telecommunications facilities, shares facilities with other telecommunications carriers, or distributes the services of other network operators. At present, Stratos offers its customers Inmarsat, MSAT, VSAT, C-Band, Microwave, Iridium and Globalstar services. Stratos also operates high frequency (“HF”) radio facilities providing service for oceanic users in the North Atlantic, as well as providing offshore oil and gas

communications in eastern Canada. Stratos generates revenue through the sale of airtime contracts, end-user equipment and specialized software or hardware to meet its clients' operational communications needs. Sales in the United States accounted for approximately 64% of total revenues in the year ended December 31, 2000 (1999-63%).

Stratos' corporate strategy is to offer multi-technology solutions that best suit individual customer needs. It has utilized satellite-based solutions to solve the communications needs of its customers and, with the acquisitions of SOSCo and Datacom, Stratos now provides non-satellite based technology services.

Segment results

Aliant's remote communications line of business had revenues of \$177.5 million, a net loss applicable to common shares of \$14.5 million and assets totaling \$795.2 million for the year ending and as at December 31, 2000. The following table summarizes the remote communications operating results for 2000 and 1999.

Remote communications operating results (*Thousands of dollars*)

	2000	1999 ⁽¹⁾	% change
Operating revenue	\$ 177,501	\$ 140,122	26.7
Operating income	(7,926)	3,309	-
Net income (before non-controlling interest)	(22,748)	(6,838)	(232.7)
Net income applicable to Aliant common shares	(14,470)	(4,291)	(237.2)

(1) 1999 results have been restated for a number of adjustments relating to billing adjustments, customer settlements, unrealized contract revenues, bad debt write-offs from acquired businesses and trade accounts receivable, inventory write-downs, excise taxes and non-recurring special charges relating to severance costs, litigation and the write-off of deferred costs.

None of Stratos' 2000 and 1999 revenues were earned from other Aliant lines of business, although \$0.4 million in revenues in 2000 were attributable to Teleglobe Canada, now a controlled subsidiary of BCE.

For a complete discussion on the operating results of the remote communications line of business please refer to the document entitled "Management's Discussion and Analysis for the Year Ended December 31, 2000" which is incorporated herein by reference.

Regulation

Canadian regulatory environment and licensing

GENERAL REGULATORY FRAMEWORK

Since the designation of SWI as the new Canadian Signatory to Inmarsat in August, 1998, the regulatory framework governing the provision of mobile and fixed satellite services in Canada has gone through significant changes in support of Canada's efforts to further liberalize the mobile and fixed satellite services market in Canada. These changes were required to implement Canada's commitments made under the WTO Agreement on Basic Telecommunications, and while they will provide the Company with increased flexibility in the operation of its facilities and the provision of its services, they will also provide opportunities for new entrants to offer competitive mobile and fixed satellite services in Canada, including competitive Inmarsat services.

THE WTO AGREEMENT ON BASIC TELECOMMUNICATIONS

On February 15, 1997, Canada entered into the World Trade Organization's General Agreement on Trade in Services - Agreement on Basic Telecommunications to liberalize the provision of basic telecommunications services in Canada. In this agreement, Canada made several commitments including: (i) with respect to mobile satellite services, to permit up to 100% foreign ownership of a mobile satellite system used by a Canadian service provider to provide services in Canada and to remove all restrictions on the routing of mobile satellite telecommunications traffic to and from Canada by October 1, 1998, and (ii) with respect to fixed satellite services, to allow the use of foreign satellite stations to provide overseas services by December 31, 1999 and to provide domestic (Canada-Canada) and cross-border (Canada-U.S.) services by March 1, 2000.

In support of the above commitments, Canada made changes to its regulatory regime to permit: (i) the foreign ownership and operation of land-earth stations ("LESs") and subscriber earth stations for mobile satellite services effective March 4, 1999, and (ii) the foreign ownership and operation of earth stations for fixed satellite services (effective March 4, 1999 for overseas services and effective March 1, 2000 for domestic and cross-border services). The implications of these amendments are two-fold. Firstly, they will permit SWI to enter into strategic ventures with a foreign carrier for the ownership and operation of its earth station assets and the provision of its satellite services. Secondly, they have the effect of liberalizing both the Canadian mobile and fixed satellite service markets to permit foreign carriers to establish and operate earth stations in Canada and offer competitive mobile and fixed satellite services in Canada.

REGULATION BY THE CRTC

As a "Canadian carrier", SWI is subject to regulation under the *Telecommunications Act* by the CRTC. On February 3, 2000, the CRTC advised Stratos that it had decided to conditionally forbear from the regulation of the Inmarsat mobile satellite services that are

public switched mobile voice services and to unconditionally forbear with respect to other wireless services provided by Stratos and its affiliates.

Under the *Telecommunications Act*, all providers of international telecommunications services in Canada are required to hold and keep current an international telecommunications service license issued by the CRTC. SWI holds a Class A international telecommunications license which was issued by the CRTC on January 1, 1999 and reissued on November 22, 2000.

SWI is affected by the same November 2000 CRTC decision relating to changes in the contribution regime discussed above under "Telecommunications -- Regulation". On June 2, 2000, the CRTC had advised SWI by opinion letter that, based on its traffic flow configurations, SWI was not responsible for paying contribution under the existing per-minute collection mechanism. Under the new regime, effective in 2001, contribution will now be paid by *all* telecommunications service providers based on a percentage of their total Canadian telecommunications service revenues ("CTSR"). CTSR is determined for all *related* companies operating in Canada. Therefore CTSR for Aliant Telecom and SWI will be totaled and SWI will not be eligible to take advantage of a \$10 million threshold exemption for the obligation to pay contribution. This additional obligation for the payment of contribution will not have a material effect on Aliant's earnings.

REGULATION BY INDUSTRY CANADA

Industry Canada manages the use and allocation of radio spectrum in Canada through the issuance of radio and spectrum licences pursuant to the *Radiocommunication Act* and its regulations. SWI holds radio licences for its Inmarsat LESs and tracking, telemetry and command ("TT&C") stations, as well as its C-band earth stations and HF radio stations. SWI also holds a spectrum license issued December 15, 1999 and renewable on an annual basis in respect of its Inmarsat mobile satellite services in Canada. The spectrum license provides that the issuance of the spectrum license to SWI does not grant SWI a monopoly on the provision of domestic or international Inmarsat mobile satellite services in Canada. Accordingly, as one of the conditions of its spectrum, SWI is required to share the spectrum assigned under its license with any other licensees that may be authorized by Industry Canada to use the same spectrum to provide Inmarsat mobile satellite services in Canada. In addition to the above, SWI is required to invest a minimum of two percent of its adjusted gross revenues from its mobile satellite services on satellite-related research and development activities, averaged over the first five licence years.

PRIVATIZATION OF INMARSAT

With the acquisition of the Teleglobe Assets, Industry Canada designated SWI as the Canadian Signatory to Inmarsat replacing Teleglobe Canada. At the time, Inmarsat was an international consortium of over 80 member countries providing global mobile satellite services around the world. Each member country of Inmarsat designated a Signatory which contributed to the cost of building, launching and operating the Inmarsat

satellite system. In return for their capital investments, Signatories received an investment share in Inmarsat and the right to access the Inmarsat satellite network via LESs owned or leased by them. Signatories then sold Inmarsat mobile satellite services on both a retail and wholesale level.

In April of 1999, Inmarsat was restructured to form a new privatized company registered in the United Kingdom (known as Inmarsat Ltd.) and its business assets and commercial operations were transferred to Inmarsat Ltd. An intergovernmental organization continues to oversee Inmarsat Ltd. to ensure fulfillment of public service obligations relating to maritime distress and safety communication services. The status of “Signatory” thereby ceased to exist and the former Inmarsat Signatories, including SWI, received shares in Inmarsat Ventures Ltd., the holding company of Inmarsat Ltd., proportionate to their previous investment shares in Inmarsat.

Access to Inmarsat space segment is now governed by LES operator agreements entered into between former Signatories operating LESs and Inmarsat Ltd. Pursuant to the LES operator agreements, LES operators wishing to offer Inmarsat satellite services must receive authorization from Inmarsat Ltd. Inmarsat Ltd. also has the right to authorize parties other than former Signatories to construct LESs, to provide Inmarsat mobile satellite services and to enter into LES operator agreements with those LES operators.

U.S. Regulatory Environment & Licensing

Stratos provides services in the U.S. through its subsidiaries Stratos Mobile Networks (USA) LLC (“Stratos USA”), MCN, Nova-Net, Marine Satellite Services, Inc. (“MSSI”), Stratos Telecom, Inc. (“Stratos Telecom”) and Stratos Offshore Services Company (“Stratos Offshore”).

The U.S. Federal Communications Commission (“FCC”) is responsible for virtually all aspects of U.S. regulation of telecommunications services provided by private companies, including licensing of services and equipment, assigning of frequencies, regulatory implementation of communications statutes and adjudicating complaints alleging violation of those statutes.

The primary U.S. statutes governing the operations of Stratos subsidiaries are the *Communications Act of 1934, as amended* (the “Communications Act”), the *Communications Satellite Act of 1962*, as amended by the *International Maritime Satellite Telecommunications Act of 1978* (the “Maritime Satellite Act”) and the *Open–Market Reorganization for the Betterment of International Telecommunications Act* (the “Orbit Act”).

The *Communications Act* requires that a provider of facilities-based or resold international telecommunications service obtain FCC authorizations. The *Communications Act* also requires that most providers of interstate telecommunications service to the public contribute a percentage of end-user revenues to a “universal service” fund that is used to support service to high-cost and under-served customers.

The *Orbit Act* establishes licensing criteria for the provision of Inmarsat services. In considering applications to provide Inmarsat “non-core” services (*i.e.*, Inmarsat services other than global maritime distress and safety services or other existing maritime or aeronautical services for which there are no alternative providers), and to operate earth stations to provide such Inmarsat non-core services, the FCC must determine whether Inmarsat and any successor entities have been privatized in a manner that will harm competition in the United States market. In making such a determination, the FCC is required to find that competition will be harmed unless the privatization of Inmarsat and any successor entities is consistent with certain criteria established in the *Orbit Act*. The *Orbit Act* also requires the FCC to condition or deny applications for authority to provide “non-core” services – and similarly condition or revoke previous authorizations to provide such services – should the FCC determine that competition in the United States will be harmed or that the request for authority is otherwise not in the public interest. The *Orbit Act* also requires the FCC to construe the requirements of the Act in a manner consistent with the United States’ obligations and commitments for satellite services under the Fourth Protocol to the General Agreement on Trade in Services, which require the United States to afford full market access and national treatment to all satellite services, including mobile data services, offered by providers, such as Inmarsat, that are licensed in WTO Member countries. The FCC has not yet made a determination pursuant to the *Orbit Act*. Until it does the FCC is unlikely to act to issue permanent licenses for earth stations communicating with Inmarsat satellites. The FCC is continuing to issue special temporary authority (“STA”) for Inmarsat earth station operators in the United States. The FCC issued the latest 180-day STA to Stratos on October 2, 2000. Additionally, both the FCC and the National Telecommunications and Information Administration (a part of the Department of Commerce) have solicited comments on the progress made in the privatization of Inmarsat. The comment period in these proceedings has closed. Preliminary findings are not expected for some time. It is not possible at this time to predict the potential impact of the outcome of these proceedings on Stratos.

FCC rules and policies require that a U.S. carrier be regulated as “dominant” on international routes to countries in which the carrier has affiliates providing certain telecommunications services. Dominant international carrier regulation imposes certain regulatory burdens, including the requirement to file tariffs for services provided on a route on which the carrier is dominant. Stratos is dominant on the U.S.-Canada route.

Individual states in the United States have enacted laws to regulate the provision of local or intrastate telecommunications by carriers operating within the state. Accordingly, Stratos subsidiaries providing local or intrastate telecommunications services in the United States must obtain approval from the relevant state utility commissions prior to providing services in that state.

Competition

At present, Stratos is one of few market participants to offer such a diverse portfolio of multi-network service offerings. However, Stratos faces competition in several of its markets and could face increased competition from newly forming or emerging entities as

well as from more established telecommunications organizations that choose to emulate Stratos' business strategy.

Stratos' major competitors by service offered are as follows:

Inmarsat

In the Inmarsat marketplace, Stratos faces competition from other former Inmarsat Signatories such as COMSAT (in North America) and Station 12 and Telenor (in Europe and Asia). To date, Stratos believes that its entrepreneurial nature and diverse product offerings have given it a competitive advantage over these larger counterparts. In addition, while Stratos competes with resellers, Stratos believes it has a competitive advantage due to its lower cost structure obtained as a result of its Inmarsat LES operator status. Effective with the BT A&M acquisition Stratos has become the second largest provider of Inmarsat services in the world.

MSAT

In the MSAT marketplace, competition presently comes from resellers, but may arise from the network operator TMI if the authority to offer service in the United States it received from the FCC is upheld on appeal.

VSAT

In the VSAT marketplace, Stratos faces little competition within its current target market, being the provision of data communications services via middle market networks of 300 sites or fewer. While larger competitors such as GE and Hughes participate in this market, these competitors have historically focused on markets where the networks are larger (over 1,000 sites).

Microwave

In the microwave marketplace, there are five significant communications providers in the Gulf of Mexico: Datacom (acquired in 2000), SOLA, CapRock, PetroCom and Coastel. These companies have provided communication services in the Gulf of Mexico for a number of years and have significant name recognition in the oil and gas industry.

In addition, Stratos faces potential competition from existing technologies (like cellular) or from the potential emergence of new technologies. As well, liberalization of the Canadian regulatory framework governing the provision of mobile satellite services is expected to provide opportunities for new entrants to offer mobile satellite services in Canada which will compete with those offered by Stratos, including competitive Inmarsat services.

Litigation

Inmarsat A Services

Prior to September 1997, IDB Mobile Communications Inc. (“IDB Mobile”) and Stratos USA provided fixed-to-mobile Inmarsat A services by acquiring Inmarsat space segment at a high cost through COMSAT (the former U.S. Inmarsat Signatory) for their LESs in Niles Canyon, California and Staten Island, New York. In September 1997, however, IDB Mobile and Stratos USA began acquiring space segment at a significantly reduced rate through another Inmarsat Signatory. Accordingly, between September 1997 and April 1999 (when Inmarsat was privatized), IDB Mobile and Stratos USA had a lower cost base for these services than they did previously.

COMSAT filed suit on January 28, 1998 against IDB Mobile, Teleglobe and WorldCom, Inc. (“WorldCom”, the predecessor of MCI WorldCom, Inc.) in federal district court claiming that IDB Mobile’s use of “competitive access” was a breach of contract. When Stratos acquired IDB Mobile through transactions in 1996 and 1997, it agreed to indemnify Teleglobe and MCI WorldCom, Inc. for liabilities they may incur in connection with these proceedings. On April 30, 1998, the district court granted IDB Mobile’s motion to dismiss the lawsuit, holding that IDB Mobile had no contractual obligation to purchase Inmarsat A space segment from COMSAT. COMSAT has filed a number of appeals with the U.S. courts, all of which have been denied.

The issue of competitive access is also currently being considered by the FCC. On March 28, 1998, IDB Mobile and Stratos USA petitioned the FCC for a declaratory ruling that competitive access is both permitted under U.S. law and in the public interest. COMSAT alone opposed this petition, which was supported by a number of other carriers, including AT&T Corporation. This petition for a declaratory ruling has not yet resulted in any ruling by the FCC. During 1999 and 2000 COMSAT has filed administrative complaints against IDB Mobile and Stratos USA with the FCC. These complaints have been dismissed but COMSAT is either appealing these decisions to the Federal Court, or requesting additional reviews by the FCC, all of which remain pending. In all complaint proceedings brought by COMSAT, COMSAT has contended that IDB Mobile owes COMSAT approximately US\$20 million as of October 1, 1999, plus accrued interest. Stratos believes that COMSAT’s claims are substantially without merit and that in any event, the amounts claimed are significantly in excess of the damages, if any, which may have been suffered by COMSAT. While Stratos does not believe that COMSAT will be successful in opposing IDB Mobile and Stratos USA, the FCC has the power under the *Communications Act* to suspend and revoke authorizations of a licensee if it believes that the licensee has exceeded its authorization or contravened the conditions attached to it. Without such authorization, Stratos would be unable to provide the licensed services, which would have a material adverse effect upon Stratos and its operations.

SAIT v. SWI and IDB Mobile

SAIT has filed an international arbitration claim against SWI and IDB Mobile for approximately US\$8 million, claiming breach of a subparticipation agreement, where SAIT has a one-third interest in the Luarentides Joint Venture interest previously held by IDB Mobile and subsequently transferred to SWI. In December 2000, the arbitrator issued a decision rejecting SAIT's arguments but adopting a new theory that SWI and IDB Mobile breached this subparticipation agreement. The arbitrator has now required Stratos to submit data for the damages phase of the proceeding.

COMSAT v. IDB Mobile, Teleglobe. and WorldCom

COMSAT has filed suit in federal district court claiming at least (US) \$2.5 million in damages from an alleged breach of contract resulting from IDB Mobile's decision to provide U.S.-originated Inmarsat B and M services through a Signatory other than COMSAT. This suit is similar to the one described above involving Inmarsat A services. Teleglobe and WorldCom guaranteed IDB Mobile's performance under the contract. Stratos is indemnifying Teleglobe and WorldCom. IDB Mobile has filed a motion for summary judgment.

Properties

Stratos owns the property on which its Operations Center is located in St. John's, Newfoundland. Stratos also leases or owns properties in Toronto, Ontario (for its corporate headquarters and marketing department); Bethesda, Maryland; Jupiter, Florida; Weston, Florida; New Orleans and Morgan City, Louisiana; Englewood, Colorado; Staten Island, New York; Niles Canyon, California; Houston, Texas; Weir, Quebec; Lake Cowichan, British Columbia; Pennant Point, Nova Scotia; Mormond Hill, Scotland; Netley, New Zealand and Cornwall and London, England.

Employees

Stratos had 528 employees as at December 31, 2000, compared to 253 as at December 31, 1999. With the exception of employees at the Niles Canyon facility Stratos' work force is not unionized.

EMERGING BUSINESS

The emerging businesses segment is a group of companies under the ownership of 100%-owned Aliant Horizons Inc. (Aliant Horizons). This group's primary operations are through Innovatia Inc. ("Innovatia"), Prexar LLC ("Prexar") and AMI Offshore Inc. ("AMI"). Innovatia is focused on the research and development of Internet-based services for broadband networks. Innovatia designs, develops and sells applications to service providers worldwide. Aliant Horizons owns 87.2% of Prexar, an Internet services provider based in Bangor, Maine and servicing the northern New England States. AMI is 57.4% owned by Aliant Horizons. The emerging business segment also includes a number of portfolio and strategic investments in the Internet and e-commerce area

including minority interests in iMagicTV Inc. ("iMagic TV"), Exigen Ltd., Voice Mobility International Inc. and InfoInterActive Inc., among others.

General development of the business

In May 2000, Innovatia, formerly NBTel Global Inc., was renamed and given a larger role by consolidating intellectual property formerly distributed amongst various Aliant companies.

In November 1999, AMI acquired K&D Industries Ltd., a distributor of telecom and industrial equipment. This transaction expanded AMI's operations throughout Atlantic Canada, and its customer base, particularly in the offshore oil and gas, telecommunications and construction industries. In November 1999, AMI also acquired St. John's based SEA Systems Limited and Tubecraft Atlantic Limited. This gave AMI a dominant position in Atlantic Canada's instrumentation and control industry. In a separate transaction in July 1999, AMI assumed direct responsibility for the operations of Newtech Instruments Limited, a business within the Aliant family focussed on electronic manufacturing.

As part of Aliant's U.S. expansion strategy, Aliant Internet LLC ("AliantNet") was created and in December 1999 acquired AcadiaNet, an Internet Service Provider located in Ellsworth, Maine with 6,000 customers. In March 2000, AliantNet was re-branded as Prexar and expanded its customer base to 27,000 by the end of 2000 through four acquisitions in Maine and New Hampshire.

Segment results

The emerging business segment had revenues of \$149.3 million, net income of \$31.0 million and assets totaling \$163.9 million for the year ending and as at December 31, 2000. The following table summarizes the emerging business operating results for 2000 and 1999.

Emerging business operating results (*thousands of dollars*)

	2000	1999	% change
Operating revenue	\$ 149,324	\$ 61,038	144.6
Operating income	27,627	(3,501)	-
Net income before non-controlling interest	30,980	(1,508)	
Net income applicable to Aliant common shares	30,810	2,654	-

For a complete discussion on the operating results please refer to the document entitled "Management's Discussion and Analysis for the Year Ended December 31, 2000" which is incorporated herein by reference.

The following is a breakdown of emerging business revenues, showing revenues from external customers, from other Aliant lines of business and from Aliant's controlling shareholder, Bell Canada:

Emerging business revenues <i>(in thousands)</i>	2000	1999
Revenues from external customers	\$ 125,094	\$ 56,502
Revenues from other Aliant lines of business	24,230	4,536
Revenues from Bell Canada and BCE	-	-
	\$ 149,324	\$ 61,038

Products and services

Prexar provides Internet dial-up, high-speed and enhanced services such as web-hosting to consumers and small-medium business customers in Maine and New Hampshire.

AMI provides process and systems control technical services, logistics and supply chain management and contract manufacturing solutions to the offshore oil and gas and other industries.

Innovatia is organized into four divisions, providing the following main products and services on a worldwide basis:

LivingLAB™

The *LivingLAB* is a product and services research and development environment that includes access to real customers, employees, partners and physical development centres.

Interactive Knowledge

This division develops and delivers customized "e-learning" solutions to technology-based companies and their customers. Currently this division has one contract, a 5-year \$175-million contract with Nortel Networks.

Interactive Television

This division develops Internet Protocol ("IP") based software products and services that enable interactive broadband applications and content for the television and the personal computer ("PC"). Its primary product is *Genium*, a convergent IP-portal software solution that enables service providers to increase their speed to market while delivering a superior interactive television service to their consumers. *Genium* integrates "tuned for broadband" on-demand streaming video and audio, broadcast television, the Internet, telephony services, interactive applications and content management tools using a single interface for the television or PC.

eWorld Solutions

This division develops tools to uniquely enable “e-commerce” and provide productivity improvements for governments and the small and medium-sized enterprise market. Its flagship product, *NterWeb*, is a web-based software platform enabling government online solutions such as vehicle registration over multiple channels (touch tone phone, screen phone, PC and Internet).

Research and Development

In 2000, the emerging business group spent approximately \$2.0 million on research and development.

Employees

As at December 31, 2000, the emerging business segment had 865 employees (1999 -- 474 employees).

ITEM 5 SELECTED CONSOLIDATED FINANCIAL INFORMATION

THREE YEAR SUMMARY ⁽¹⁾

As at December 31 (thousands of dollars, except per share amounts)			
	2000	1999	1998
Total operating revenues	\$2,274,180	\$2,030,705	\$1,723,772
Total operating expenses	1,777,623	1,661,695	1,313,135
Restructuring costs	-	78,000	-
Other income	21,282	19,652	10,875
Interest charges	124,387	120,638	108,036
Income taxes	183,890	133,929	140,793
Non-controlling interest in net earnings	(7,559)	(5,975)	974
Net income	217,121	140,070	171,709
Total assets	3,724,004	2,880,459	2,676,991
Long term debt (including debt due within one year)	1,568,271	1,187,573	1,107,546
Shareholders' equity	1,343,403	1,096,228	1,041,616
Non-controlling interest	82,486	29,718	36,882
Earnings per average common share	1.65	1.11	1.36
Earnings per share excluding restructuring costs	1.65	1.44	1.36
Dividends declared per common share	0.90	0.83	0.75

Notes to three year summary

(1) Certain information for 1999 has been restated to conform to the 2000 presentation format. The 1999 combination has been accounted for in these financial statements by the pooling of interests method, that is by combining the historical carrying values of the assets, liabilities, and shareholder's equity and historical operating results of the predecessor companies. Therefore, results for 1998 have not been restated to conform to the 2000 presentation format.

DIVIDEND POLICY

Aliant intends to pay dividends based upon its earnings level and capital requirements. Aliant intends to achieve a dividend payout level, as a proportion of net income, that is

consistent with its growth agenda. Any payments will be at the discretion of the Board of Directors based on the factors set out above and such factors as the Board of Directors consider relevant. The current dividend rate is \$0.90 per annum.

ITEM 6 MANAGEMENT’S DISCUSSION AND ANALYSIS

The Company’s document entitled “Management’s Discussion and Analysis for the Year Ended December 31, 2000” is incorporated herein by reference.

ITEM 7 MARKET FOR SECURITIES

Aliant’s common shares are publicly traded on The Toronto Stock Exchange under the symbol “AIT”.

ITEM 8 DIRECTORS AND OFFICERS

The name, municipality of residence and principal occupation for each of the Directors of Aliant appear below. The number and percentage ownership of common shares beneficially owned or controlled by the directors and senior officers are detailed in the Notice of Annual Meeting of Shareholders and Information Circular, which is incorporated herein by reference. The Company has an audit committee, a corporate governance committee, a defined benefit pension investment committee, a human resources and compensation committee and an investment committee, memberships in which are indicated below.

<u>Name / Director Since</u>	<u>Residence</u>	<u>Principal Occupation</u>
Miller H. Ayre ^{1,2} April 22, 1999	St. John’s, Newfoundland	Publisher, The Telegram (Publishing)
J. Charles Caty ^{3,4} April 22, 1999	Oakville, Ontario	Corporate Director
Lino J. Celeste ^{1,2,3,4,5} April 22, 1999	Saint John, New Brunswick	Chairman of the Board of the Company
Robert P. Dexter, Q.C. ^{1,2} April 22, 1999	Halifax, Nova Scotia	Chairman and Chief Executive Officer, Maritime Marlin Travel (Group) Limited (Travel Agency)
Ivan E. H. Duvar ³ April 22, 1999	Halifax, Nova Scotia	Corporate Director

Albert E. P. Hickman ³ April 22, 1999	St. John's, Newfoundland	Chairman and President, Hickman Motors Limited (Automotive sales and service)
Edward Reevey ^{1,5} April 22, 1999	Rothesay, New Brunswick	Corporate Director
Randall J. Reynolds ^{2,4} April 22, 1999	Thornhill, Ontario	President, Bell Nexxia (Telecommunications)
Alan K. Scales, Q.C. ² April 22, 1999	Charlottetown, Prince Edward Island	Partner, Stewart McKelvey Stirling Scales (Law Firm)
John Sheridan ^{1,3} June 23, 1999	Toronto, Ontario	President, Bell Canada (Telecommunications)
Donald C. R. Sobey ⁴ April 22, 1999	Trenton, Nova Scotia	Chairman, Empire Company Limited (Holding Company)
Stephen G. Wetmore April 22, 1999	St. John's, Newfoundland	President and Chief Executive Officer of the Company
Charles W. White Q.C. ⁴ April 22, 1999	St. John's, Newfoundland	Partner, White Ottenheimer & Baker (Law Firm)

1 Audit Committee Member

2 Corporate Governance Committee Member

3 Human Resources and Compensation Committee Member

4 Investment Committee Member

5 Defined Benefit Pension Investment Committee Member

With the exception of the following individuals, all of the directors have been employed in the designated principal occupation, or in the same principal occupation for one of the Combining Companies, for the preceding five years:

Mr. Ayre is currently publisher of The Telegram, St. John's. Prior to this he was group Publisher and Chief Executive Officer of Thompson Newfoundland, prior to which he was Publisher and General Manager of The Evening Telegram. Prior to this he was Chairman, President and Chief Executive Officer of Ayre & Sons Limited.

Mr. Reynolds is President of Nexxia, prior to which he was President of and Chief Executive Officer of BCE Mobile Communications Inc. Prior to which he held a number of positions within the Bell Mobility family.

Mr. Sheridan is President, Bell Canada, prior to which he was Vice-chair, Market Groups, Bell Canada, prior to which he was President of Bell Canada (Ontario), prior to which he held a variety of senior executive positions in the Bell Canada family.

Prior to Mr. Wetmore's appointment as President and Chief Executive Officer of Aliant on April 22, 1999, he was President and Chief Executive Officer of NewTel Enterprises Limited and Chief Executive Officer of NewTel Communications Inc. Prior to this he was President of Smart Capital Resources Inc. from 1997, prior to which he was President of Air Atlantic (1994) Ltd. from 1995 to 1997.

The officers of Aliant are as follows:

<u>Name</u>	<u>Residence</u>	<u>Position Held</u>
Lino J. Celeste	Saint John, New Brunswick	Chairman
Stephen G. Wetmore	St. John's, Newfoundland	President and Chief Executive Officer
Jay Forbes	Saint John, New Brunswick	Executive Vice President and Chief Financial Officer
Gerald L. Pond	Rothesay, New Brunswick	Executive Vice President and President, Telecommunications and Emerging Business
Barrie H. Black	Rothesay, New Brunswick	Vice President General Counsel and Corporate Secretary
G. Reid Parker	Quispamsis, New Brunswick	Treasurer
Manon Losier	Quispamsis, New Brunswick	Assistant Secretary

Prior to the Combination, each of the Officers held the following positions:

Prior to Mr. Celeste's appointment as Chairman, he was Chairman of Bruncor Inc.

Prior to Mr. Forbes' appointment as Executive Vice President and Chief Financial Officer, he was Chief Financial Officer for Oxford Properties Group. Prior to this he was Senior Vice President and Chief Financial Officer of Nova Scotia Power Holdings Incorporated and Vice President and Chief Financial Officer of Nova Scotia Power Incorporated.

Prior to Mr. Pond's appointment as Executive Vice President and President, Aliant Telecom and Emerging Business, he was Executive Vice President and President, Information Technology and Emerging Business. Prior to this he was President and CEO of Bruncor Inc.

Prior to Mr. Black's appointment as Vice President General Counsel and Corporate Secretary, he was General Counsel and Corporate Secretary of Bruncor Inc.

Prior to Mr. Parker's appointment as Treasurer, he was Treasurer of Bruncor Inc.

Prior to Ms. Losier's appointment as Assistant Secretary, she was Assistant Secretary of Bruncor Inc.

ITEM 9 ADDITIONAL INFORMATION

The Company will provide to any person, upon request to the Corporate Secretary, One Brunswick Square, 18th Floor, P.O. Box 5030, Saint John, New Brunswick, E2L 4L4:

- a) when the securities of the Company are in the course of distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of securities, the following information:
 - i) a copy of the Annual Information Form, together with any document incorporated herein by reference,
 - ii) a copy of the comparative financial statements for the most recently completed financial year together with the accompanying report of the auditor and a copy of any interim financial statements subsequent to the financial statements for its most recently completed financial year,
 - iii) a copy of the Information Circular for the most recent annual meeting of shareholders,
 - iv) a copy of any other documents that are incorporated by reference into the preliminary short form prospectus or short form prospectus;
- b) or at any other time, a copy of any documents referred to in (1)(a)(i), (ii) and (iii) above.

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Company's Information Circular for its most recent annual meeting of shareholders. Additional financial information is available in the Company's comparative financial statements for years ended December 31, 2000 and 1999.