

It's all about change.

Our customers are changing. Our company is changing.

Our vision remains the same. First quarter report (Period ending March 31, 2002)

John Gonzales, university student
"Hardly a day goes by when I don't use Vibe: I research papers online so I can't afford to spend half my time waiting for a page to download. With Vibe, saving time is a major bonus."

*Vibe™ high-speed Internet access is a service of Aliant Telecom.

Net income up 39%

Financial highlights

<i>(dollars in millions)</i>	Three months	
	2002	2001
Operating revenues	\$ 645.6	\$ 638.4
Operating expenses	\$ 417.8	\$ 426.8
EBITDA ¹	\$ 227.9	\$ 211.6
Net income applicable to common shares ²	\$ 51.3	\$ 37.0

1 Earnings before interest, tax, depreciation and amortization

2 Before adjustments for changes in accounting policies



Letter to shareholders

Resilience and adaptability

It's a privilege to deliver my first report to shareholders as your president and CEO. I want to thank you and the board of directors for the confidence and trust you have placed in me. Together with our talented management teams I will work hard to increase the value of your investment and ensure the continued success of your company. Now, let's get down to business.

Earnings per share 37¢

Our financial results for the first quarter clearly demonstrate Aliant's resilience and adaptability in the face of change. Net income before adjustments for changes in accounting policies increased 39 per cent to \$51 million, up \$14 million on a normalized basis from the same period last year. Earnings per share grew to 37¢ from 27¢ in the first quarter of last year. Revenue remained steady at \$646 million, while EBITDA (earnings before interest, taxes, depreciation and amortization) grew by 8 per cent to \$228 million.

Operating costs down 9 per cent

Strong growth in remote communications, wireless and high-speed Internet services allowed us to overcome a \$26 million shortfall in first quarter revenue arising from the Canadian Radio-television and Telecommunications Commission's (CRTC) new contribution regime and cost subsidy rules. Our unwavering focus on improving our value proposition for customers has allowed us to reduce operating costs by 9 per cent. At the same time, improved working capital management and lower capital investments have enabled the company to generate \$45 million in free cash flow during the quarter, contributing to a 20 per cent reduction in interest costs and a 37 per cent improvement in normalized earnings per share.

Expect continued organic growth

As indicated in the guidance provided earlier in the year, Aliant expects to realize continued organic earnings growth as a result of strategic acquisitions made over the past two years. Our success in integrating these acquisitions has enabled us to effectively enhance our product and service mix and move into new global markets. As well, synergies arising from our fourth quarter 2001 restructuring, and efforts to more closely align operations with Bell, are providing additional earnings growth.



Jay Forbes was appointed president and CEO of Aliant Inc. on March 26, 2002. He had served as acting CEO since March 1, when former president and CEO Stephen Wetmore was appointed vice-chair, corporate, Bell Canada.

Jay joined the company in February 2001 as executive vice president and chief financial officer. Prior to Aliant, he held senior executive positions with Oxford Properties Group and Nova Scotia Power Holdings Incorporated.

EBITDA grew by 8 per cent

Earnings growth during the quarter was driven primarily by the high-growth operations of Aliant's remote communications, wireless and Internet businesses. The earnings growth was accompanied by a reduced strategically focused capital program that delivered 20 per cent lower interest expense. Revenues increased slightly in the quarter to \$646 million, suppressed mainly by the early effects of the CRTC contribution and banding decision. The decision is expected to negatively impact the company's revenues by \$110 million in 2002. EBITDA grew by 8 per cent, just above the annual growth rate of 3 per cent to 7 per cent provided in the company's guidance earlier in the year and despite the impact of the CRTC decision, which is expected to result in a negative \$69 million EBITDA impact this year.

Total cash operating expenses for the quarter were \$418 million, down 2 per cent, compared to \$427 million during the same period last year. Capital expenditures for the first quarter of 2002 were \$107 million, a decrease of 29 per cent when compared to the same period in 2001.

New accounting standards

Effective January 1, 2002, Aliant adopted the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) with regard to foreign currency translation, stock based compensation and goodwill and other intangibles. The adoption of these new standards resulted in a restatement of the 2001 figures such that there was no change to the EBITDA reported but the net income applicable to common shares decreased as well as earnings per share.

Board changes

At the annual and special meeting of shareholders held on April 19 three new members were elected to the board of directors – Victor L. Young, former president and CEO of Fishery Products International; William D. Anderson, president of BCE Ventures Inc.; and Peter J. Nicholson, currently chief strategy officer for BCE Inc. The new members bring a wide range of skills to the company that will be invaluable as we continue to evolve and grow. I am also pleased to report that I will be serving on the board too as is customary for the company's president and CEO.

Together with the chairman, Charles White, I want to pay tribute to retiring directors Lino Celeste, Ivan Duvar, Albert Hickman, Randall Reynolds, Alan Scales and Donald Sobey for their valuable contribution to the company.

Dividend confirmed

The board of directors is committed to providing a regular return on investment to shareholders. The board has declared a common share dividend of 22.5¢ per common share and a preferred share dividend of 34.0625¢ per series 2 preference share payable on June 30 to shareholders of record on June 15, 2002.

NET INCOME FOR THE QUARTER BEFORE

ADJUSTMENTS INCREASED 39 PER CENT TO

\$51

MILLION, UP \$14 MILLION ON A NORMALIZED

BASIS FROM THE SAME PERIOD LAST YEAR.

Looking forward

Despite the changes of the past year including an industry downturn, regulatory decisions that are negatively affecting profits and an economy that, while recovering, still remains in a state of uncertainty, Aliant has managed to maintain its course for growth. Our resilience and adaptability bode well for the continued success of your company. I look forward to leading the management team that will take us into the future – conquering old challenges and exploring new opportunities.

Yours sincerely,



Jay Forbes
President and CEO
April 18, 2002

Management's discussion and analysis

This document contains statements and information about potential future circumstances and developments. Such statements and information are qualified by any of the inherent risks and uncertainties surrounding future expectations generally and may differ materially from Aliant's actual future experience. Aliant disclaims any intention or obligation to update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.

HIGHLIGHTS OF ALIANT'S FIRST QUARTER RESULTS

Aliant Inc. ("Aliant" or the "Company") consolidated revenues remained strong at \$645.6 million for the first quarter of 2002, 1.1 per cent growth over the same period in 2001. Telecommunications revenues decreased 5.5 per cent due to a decline in local revenues resulting from previous decisions by the Canadian Radio-television and Telecommunications Commission's (CRTC). Continued growth in Aliant Telecom's wireless and Internet revenues partially offset these declines. Remote Communications revenues increased 25.7 per cent based on demand for INMARSAT high-speed data services by military and media customers.

Earnings before interest, taxes, depreciation and amortization (EBITDA¹) grew 7.7 per cent to \$227.9

for the first quarter in 2002 from \$211.6 million a year ago. The EBITDA margin (EBITDA as a percentage of revenues) increased to 35.3 per cent in 2002 from 33.1 per cent in 2001. Consolidated net income applicable to common shares (before changes in accounting policy as discussed below) was \$51.3 million, or \$0.37 per share for the first quarter in 2002, compared with \$37.0 million or \$0.27 per share for 2001. This represents growth of 38.6 per cent and 37.0 per cent respectively.

During the quarter Aliant's board of directors announced executive management changes. Effective March 1, 2002, Stephen Wetmore, Aliant's president and chief executive officer, became vice chair, corporate, Bell Canada. Jay Forbes, formerly Aliant's chief financial officer and executive vice president, was appointed president and chief executive officer effective March 26, 2002.

Restructuring charges

In the fourth quarter of 2001, Aliant recorded a \$111.2 million restructuring charge comprised primarily of staff severance costs and the cost of consolidating various entities into one operating unit. Total operating savings to date are \$8.3 million, translating into an annual

Aliant Inc. consolidated operating results (thousands of dollars except per share amounts)

For the quarter ended March 31	2002	2001	% change
		(restated)	
Operating revenues	\$ 645,647	\$ 638,359	1.1
Cost of operating revenues	191,750	178,208	7.6
Net operating revenues	453,897	460,151	(1.4)
Operating expenses	226,021	248,567	(9.1)
EBITDA	227,876	211,584	7.7
Depreciation and amortization	107,851	108,187	(0.3)
Operating income	120,025	103,397	16.1
Other income (expense)	(1,475)	1,541	—
Loss on foreign exchange	(458)	(27,800)	(98.4)
Interest	33,745	42,162	(20.0)
Income taxes	25,214	37,379	(32.5)
Non-controlling interest	5,680	(16,760)	—
Net income	53,453	14,357	—
Preferred share dividends	2,384	—	—
Net income applicable to common shares	\$ 51,069	\$ 14,357	—
Basic earnings per share	\$ 0.37	\$ 0.11	—

¹ EBITDA is defined by the Company as operating income plus depreciation and amortization expense. The Company has included information concerning EBITDA because it believes that it is used by certain investors as one measure of the Company's financial performance. EBITDA is not a measure of financial performance under Canadian generally accepted accounting principles and is not necessarily comparable to similarly titled measures used by other companies. EBITDA should not be construed as an alternative to operating income or to cash flows from operating activities (as determined in accordance with Canadian generally accepted accounting principles) as a measure of liquidity.

run rate of \$33.3 million at March 31, 2002. The additional synergies required to reach the targeted \$56 million annual run rate will be realized through a selected retirement program, with approximately 250 employees expected to leave the Company early in the second quarter of 2002.

Accounting policy changes

Goodwill

Previously, recorded goodwill was amortized on a straightline basis over the estimated life of ten to twenty years. In addition, the Company would periodically evaluate the carrying value of goodwill for potential permanent impairment through ongoing review and analysis of fair market value and expected earnings. A permanent impairment in the value of goodwill was charged to earnings in the year such impairment was determined.

Under the new accounting standards, goodwill and intangibles with an indefinite life are no longer amortized. Entities are also required to perform an impairment test as of January 1, 2002 to ascertain as to whether they should recognize a decline in the carrying value of any recorded goodwill balances. Any impairment provision recognized as a result of the adoption of these new standards is to be charged to opening retained earnings. This impairment test is required to be re-performed on at least an annual basis and any subsequent impairment provisions would be charged to income at that date.

The Company has commenced its goodwill impairment assessment process. Should any impairment provision be required it will be recorded as an adjustment to retained earnings.

Consistent with these new standards, the Company has not recorded any charge relating to the amortization of goodwill in 2002. During the first quarter of 2001, the Company recorded \$6.2 million in Depreciation and Amortization expense relating to the amortization of goodwill.

Foreign currency translation

Effective January 1, 2002, the Company adopted the new standards of the Canadian Institute of Chartered Accountants with regard to foreign currency translation. All exchange gains and losses arising from the

translation of foreign currency items are now included in income, introducing additional volatility to the net earnings of the Company depending on exchange rate fluctuation. Previously, unrealized foreign exchange gains or losses in relation to long-term debt balances were deferred and amortized over the remaining term of the related debt. As required under the new standards, this change was adopted retroactively with restatement of prior period balances. As a result of this change, for the three months ended March 31, 2001, foreign exchange losses increased by \$27.8 million, and net income decreased by \$16.5 million. See note 2 to Aliant's consolidated financial statements for more detailed information.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new standards of the Canadian Institute of Chartered Accountants for stock-based compensation. All direct awards of stock to employees are to be accounted for using a fair-value method of accounting. As a result of this change, the Company charged \$0.4 million against opening retained earnings. See note 2 to Aliant's consolidated financial statements for more detailed information.

Management expects annual revenues of \$2.68 billion to \$2.76 billion or 3 per cent to 6 per cent growth over last year. EBITDA is expected in the range of \$1.000 billion to \$1.045 billion, growth of 3 per cent to 7 per cent over 2001.

TELECOMMUNICATIONS

The telecommunications line of business is comprised of the operations of Aliant Telecom, its subsidiaries and Aliant's 87 per cent ownership of Aliant ActiMedia, a telephone directory business operating in Atlantic Canada. Telecommunications revenues decreased 5.5 per cent in the first quarter of 2002 to \$414.3 million due to a decline in local revenues resulting from the CRTC's banding decision, decline in contribution rate to the national pool, and cost subsidy rules. Long distance revenues decreased marginally due to continued downward pressure on business toll pricing. Sales of telecom equipment were lower as one-time sales in the first quarter of 2001 were not repeated in 2002. Continued growth in Aliant Telecom's wireless and Internet revenues partially offset these declines.

Impact of accounting changes on financial results (millions of dollars except earnings per share amounts)

<small>For the period ended March 31</small>	2002	2001	% change
Reported net income applicable to common shareholders	\$ 51,069	\$ 14,357	255.7
Goodwill amortization	—	6,154	—
Foreign exchange loss	221	16,485	(98.7)
Restated net income applicable to common shareholders	\$ 51,290	\$ 36,996	38.6
Reported basic EPS	\$ 0.37	\$ 0.11	236.4
EPS <small>(adjusted for changes in accounting policies)</small>	\$ 0.37	\$ 0.27	37.0

The decline in revenues was partially offset by 22.6 per cent reduction in cost of revenues, primarily due to lower contribution payments into the national pool and reduced product sales, and a 10.1 per cent decrease in operating expenses. As a result, EBITDA grew 4.6 per cent from \$188.3 million in the first quarter of 2001 to \$196.9 million in the first quarter of 2002 despite the negative impact of the regulatory changes.

Effective January 1, 2002, all service providers must pay 1.4 per cent (4.5 per cent – 2001) on certain of their telecommunications revenues into a national contribution pool. Local service providers are then able to draw from the pool to help offset the costs of providing basic local services in high-cost areas. These changes have impacted both Aliant Telecom's revenues and related cost of revenues, with the decrease in costs only partially offsetting decreased revenues. EBITDA for the quarter was negatively impacted by \$16.6 million compared to a \$3.7 million positive impact during the same period in 2001, a \$20.3 million year-over-year decrease.

Excluding regulatory impacts, management anticipates annual revenues of \$1,803 million to \$1,868 million or 4 per cent to 7 per cent growth over last year. EBITDA is expected in the range of \$875 million to \$900 million, growth of 8 per cent to 11 per cent over 2001.

Revenues

Local

Local revenues are earned through the provision of voice and data network access, telephone set rentals, enhanced service options and contribution payments. Total local revenues decreased by 10.3 per cent (\$21.8 million) to \$190.0 million for the quarter due to a \$26.2 million drop in contribution revenues, as outlined above. The loss of contribution revenues was partially offset by higher network access services (NAS) revenues from price increases implemented in mid 2001, and growth in both features and data access services revenues. Without the loss of revenues from the CRTC contribution changes, local revenues would have increased 2.1 per cent over the same period last year.

Impact of contribution regime changes (millions of dollars)

For the period ended March 31

	2002	2001
Decreased local revenues	\$ (26.2)	\$ (4.2)
Decreased long distance revenues	—	(4.7)
Total revenue impact	(26.2)	(8.9)
Decreased settlement expense	—	2.3
Decreased contribution expense	9.6	10.3
Total cost of revenues impact	9.6	12.6
Net EBITDA impact	\$ (16.6)	\$ 3.7

Telecommunications operating results (thousands of dollars)

For the quarter ended March 31

	2002	2001	% change
Local	\$ 189,959	\$ 211,764	(10.3)
Long distance	101,545	104,269	(2.6)
Wireless	61,224	54,912	11.5
Internet	21,848	16,084	35.8
Other	39,708	51,263	(22.5)
Total operating revenues	414,284	438,292	(5.5)
Cost of operating revenues	45,890	59,283	(22.6)
Net operating revenues	368,394	379,009	(2.8)
Operating expenses	171,464	190,709	(10.1)
EBITDA	196,930	188,300	4.6
Depreciation and amortization	91,327	87,895	3.9
Operating income	105,603	100,405	5.2
Other income (expense)	(843)	1,092	—
Interest	21,688	24,273	(10.6)
Income taxes	31,745	35,316	(10.1)
Non-controlling interest	193	289	(33.2)
Net income	\$ 51,134	\$ 41,619	22.9

Local voice NAS revenue increased \$1.9 million to \$115.6 million, a 1.7 per cent increase over the same period in 2001 due to price increases implemented mid 2001. Aliant Telecom's overall market share for local services remains strong at 97.5 per cent due to its strategy of retaining customers through targeted bundled service offerings. Residential customer acceptance of these bundled service offerings has resulted in a 24 per cent increase in the number of packages over the first quarter in 2001, resulting in approximately 30 per cent of residential customers participating.

In the first quarter of 2002, Aliant Telecom aligned methodologies for counting network access services to be consistent across the four Atlantic Provinces. Previously, one of the predecessor companies included additional inbound only lines in their NAS count. As a result, the restated NAS numbers are lower by approximately 19,000, while NAS revenues were not impacted.

Long distance

Aliant Telecom's minute volumes increased by 1.7 per cent from 887 million in the first quarter of 2001 to 902 million in the first quarter of 2002. The large base of call-centre customers that Aliant Telecom has been able to attract to the Atlantic region continues to be a significant driver of long distance minute volumes. At the same time, bundled service offerings, including a flat-rate long distance component, continue to drive up calling volumes in the residential market. As a result of these initiatives, Aliant Telecom has maintained its market share of approximately 89 per cent of the Atlantic Canada long distance market.

Lower average per-minute prices continue to offset the impact of demand growth on long distance revenues. As a result, long distance revenues marginally declined by 2.6 per cent or \$2.7 million compared to the first quarter in 2001.

Wireless

Wireless revenues are earned through the provision of cellular, paging and mobile radio services. Aliant Telecom's wireless business continued its strong, steady growth, with revenues increasing 11.5 per cent to \$61.2 million for the quarter. Aliant Telecom maintains an industry-leading market share (approximately 75 per cent) for cellular services, and continued new

demand for these services is reflected in customer growth. Aliant's cellular customers numbered 492,389 at March 31, 2002, representing growth of 21.7 per cent over 2001 and encompassing a 134.2 per cent increase in digital subscribers.

Part of the growing demand for cellular services is due to the growth in new digital services as geographical digital coverage is expanded. Prepaid wireless services continue to meet the market demand of customers with lower usage patterns. While this has resulted in greater penetration of service, it has led to a further decline in the average revenues per customer, which declined by 8.5 per cent to \$38.29 per month for the first quarter of 2002 compared with \$41.86 per month for the same period last year. Contributing to this decline is reduced roaming and toll revenues, reflective of weakening economic conditions. Excluding the prepaid customer, average revenue per postpaid customer remained strong at \$43.39 per month in 2002 compared to \$44.43 per month in 2001.

Internet

Internet services continued to generate tremendous growth for the quarter over the same period last year as the number of Aliant Telecom's high-speed customers increased by 70.2 per cent to 80,560 and the number of regular dial-up customers grew by 6.4 per cent to 198,045. Revenues from Internet services increased 35.8 per cent to \$21.8 million for the quarter.

Other

Other telecommunications revenues are primarily derived from telephone directory advertising, equipment sales and newer revenue sources such as eCommerce and network management. Total other revenues were down \$11.6 million, or 22.5 per cent, to \$39.7 million in the first quarter of 2002. Sales of telecom equipment were lower by \$8.8 million as one-time sales in data equipment (\$5.1 million) and trunk mobile radio sets (\$4.7 million) occurred in the first quarter of 2001 and were not repeated in 2002. The \$2.8 million or 12.6 per cent decrease in other miscellaneous revenues is partially due to lower pole attachment revenues resulting from the sale of poles in Newfoundland and Labrador in the third quarter of 2001.

Other revenues (thousands of dollars)

For the period ended March 31

	2002	2001	% change
Product sales	\$ 18,732	\$ 27,509	(31.9)
Directory revenues	1,714	1,705	0.5
Other miscellaneous	19,262	22,049	(12.6)
	\$ 39,708	\$ 51,263	(22.5)

Expenses

Cost of revenues

Cost of revenues includes cost of goods sold, contribution payments and settlement costs paid to other telecommunications carriers to transit and terminate long distance calls originating on Aliant Telecom's network. The 22.6 per cent, or \$13.4 million decrease in cost of revenues compared with the first quarter of 2001 was due to lower contribution payments of \$9.6 million or 66.3 per cent, resulting from the new contribution regime, and reduced cost of goods sold of \$6.1 million or 25.7 per cent corresponding to lower product sales.

Operating expenses

Other telecommunications operating expenses were \$171.5 million for the quarter, down 10.1 per cent over last year. This is a significant accomplishment given that revenues before the Contribution Decision impact are relatively unchanged from 2001. Operating expenses have decreased as persistent efforts to reduce costs, combined with the result of the 2001 restructuring charge and Bell Alignment initiative, have generated \$19.2 million in year over year cash operating savings.

Depreciation and amortization

Telecommunications' depreciation and amortization expenses were up 3.9 per cent for the quarter compared to last year due to a larger capital asset base. The focus of capital spending has shifted over the past two years from the traditional voice network toward broadband and wireless, areas with high revenue-growth potential. In the first quarter of 2001, Aliant Telecom accelerated its capital program to meet the growing needs of customers in its broadband and wireless areas. With the successful establishment of a significant footprint, Aliant Telecom was able to decrease capital investments in the first quarter of 2002 by 38.0 per cent to \$86.8 million from \$140.0 million in 2001. It is anticipated that annual capital expenditures will be in the range of \$375 to \$400 million in 2002.

Bell alignment initiative

Late in 2001, Aliant Telecom and Bell Canada agreed to work more closely together to achieve our shared goals of improving customer service, reducing costs (expense and capital) and growing revenues.

We have identified that there are ways both companies can grow by working together by leveraging our respective strengths that when shared, will make both of our companies stronger. Together we are finding ways to reduce costs and also to bring new products and services to our customers, which will enhance our overall financial picture.

In the first quarter of 2002, the two companies reached agreement on a number of initiatives which are expected to provide Aliant Telecom with \$15 million in EBITDA improvements and over \$4 million in capital savings in 2002. We will continue to pursue the identification of additional synergies throughout 2002.

Management anticipates annual revenues of \$1,803 million to \$1,868 million or negative 3 per cent to 1 per cent growth over last year. EBITDA is expected in the range of \$875 million to \$900 million, growth of 0 per cent to 3 per cent over 2001.

INFORMATION TECHNOLOGY

Aliant's information technology (IT) line of business is operated by xwave, its wholly owned subsidiary. xwave's revenues increased 10.8 per cent for the first quarter of 2002 to \$121.5 million. Sales in the higher-margin IT services business declined by 5.0 per cent over 2001 while sales in the lower-margin fulfillment business increased by 33.7 per cent. This shift in revenue mix, combined with a marginal increase in operating expenses and lower staff utilization rates, has led to lower EBITDA of \$8.6 million in 2002, a 19.2 per cent decline from the same period last year. Lower utilization rates are primarily due to slow demand for systems integration services industry-wide. During the quarter, xwave signed \$130 million in new contracts including a 3-year, \$32 million contract to implement an eBusiness production and development environment. EBITDA is also showing signs of recovery with this quarter representing the second consecutive quarter of xwave EBITDA growth.

xwave continues to be an important supplier to other Aliant companies, especially to Aliant Telecom as it makes significant investments in network systems and accelerates its operating efficiency programs. Sales made to other Aliant lines of business have increased 8.7 per cent over the first quarter in 2001 but have

Cost of revenues (thousands of dollars)

For the period ended March 31

	2002	2001	% change
Settlement costs	\$ 12,264	\$ 11,610	5.6
Contribution payments	4,890	14,522	(66.3)
Cost of goods sold	17,641	23,738	(25.7)
Other	11,095	9,413	17.9
	\$ 45,890	\$ 59,283	(22.6)

decreased 13.2 per cent from the fourth quarter of 2001 and represented 31.3 per cent of xwave's total sales.

Revenues from IT consulting, technical support services and data processing services marginally declined by 5.0 per cent to \$61.9 million for the first quarter of 2002. Product sales from xwave's IT fulfillment business grew significantly, 33.7 per cent to \$59.7 million. The gross margin on product sales at 7.4 per cent decreased from 2001 at 9.4 per cent due to competitive pressures resulting from the economic downturn. Similarly, gross margin on service revenues declined from 2001 levels by 2 per cent to 33 per cent in 2002. Consistent with earlier guidance, xwave is expected to deliver annual 2002 revenues in the range of \$400 to \$450 million, an increase of 7 per cent to 20 per cent over 2001, and EBITDA in the range of \$33 to \$40 million for 2002.

REMOTE COMMUNICATIONS

Aliant's remote communications line of business is represented by its 61 per cent ownership of Stratos. Remote communications' revenue increased by 25.7 per cent to \$126.5 million for the first quarter in 2002 from \$100.6 million in 2001. EBITDA for the first quarter of 2002 increased 75.7 per cent to \$31.4 million from \$17.9 million in 2001 as improved net operating revenues and lower operating costs were experienced.

Stratos is expecting annual revenues in the range of \$485 to \$498 million, 8 per cent to 10 per cent growth over 2001 and EBITDA in the range of \$110 to \$115 million, growth of 10 per cent to 15 per cent over 2001. This is consistent with the guidance provided at year-end.

For the year ended December 31, 2001, Stratos' operations consisted of two business segments:

Information technology operating results (thousands of dollars)

	2002	2001	% change
<i>For the quarter ended March 31</i>			
Services	\$ 61,861	\$ 65,101	(5.0)
Product sales	59,665	44,613	33.7
Total operating revenues	\$ 121,526	\$ 109,714	10.8
Cost of operating revenues	55,260	40,406	36.8
Net operating revenues	66,266	69,308	(4.4)
Operating expenses	57,686	58,688	(1.7)
EBITDA	8,580	10,620	(19.2)
Depreciation and amortization	2,855	3,520	(18.9)
Operating income	5,725	7,100	(19.4)
Other income (expense)	29	27	7.4
Interest	373	465	(19.8)
Income taxes	2,484	3,354	(25.9)
Non-controlling interest	(33)	(16)	—
Net income	\$ 2,930	\$ 3,324	(11.9)

Remote communications operating results (thousands of dollars)

	2002	2001	% change
<i>For the quarter ended March 31</i>			
Operating revenues	\$ 126,540	\$ 100,641	25.7
Cost of operating revenues	78,597	62,046	26.7
Net operating revenues	47,943	38,595	24.2
Operating expenses	16,530	20,714	(20.2)
EBITDA	31,413	17,881	75.7
Depreciation and amortization	9,757	13,321	(26.8)
Operating income	21,656	4,560	—
Other income (expense)	(193)	(3,483)	(94.5)
Loss on foreign exchange	(458)	(27,800)	(98.4)
Interest	12,439	15,426	(19.4)
Income taxes	(4,479)	1,941	—
Non-controlling interest	5,073	(17,354)	—
Net income (loss)	\$ 7,972	\$ (26,736)	—

Telecommunications Services and Network and Other Services. The segments were reviewed and revised during the first quarter of 2002 based on economic characteristics and management's evaluation of the segments in making operating decisions. The new segments include Mobile Satellite Services ("MSS") and Broadband Services ("Broadband"). Comparative segment data for 2001 has been restated to reflect the new segments.

The MSS segment includes the sale of airtime and equipment for Stratos' INMARSAT, MSAT, Iridium, aeronautical and other mobile satellite operations. The Broadband segment includes the sale of airtime and equipment for Stratos' microwave and VSAT operations.

Revenue

MSS revenues increased 33.7 per cent from \$67.7 million for the first quarter in 2001 to \$90.6 million in the first quarter of 2002 due primarily to increased military and media demand for high-speed INMARSAT data services. Broadband revenues increased 9.2 per cent in the quarter from \$32.9 million for 2001 to \$35.9 million in 2002; this lower than expected growth rate is due to decreased drilling activity in the Gulf of Mexico and North Sea resulting from lower oil prices.

Cost of revenues for the quarter increased 26.7 per cent to \$78.6 million in 2002 from \$62.0 million in 2001, in conjunction with increased revenues. Gross margin as a percentage of revenue was 37.9 per cent in the first quarter of 2002 compared to 38.3 per cent for the same period in 2001.

Expenses

Operating expenses decreased 20.2 per cent to \$16.5 million in the first quarter of 2002 from \$20.7 million in the first quarter of 2001 demonstrating the realization of significant operating synergies in the expanded operations (due to the integration of British Telecommunications plc's Aeronautical and Marine

Division), including the workforce reduction announced in the fourth quarter of 2001.

Depreciation and amortization for the quarter ended March 31, 2002 decreased 26.8 per cent to \$9.8 million from \$13.3 million in the prior year as a result of the cessation of goodwill amortization in 2002. Goodwill amortization in the first quarter of 2001 was \$4.3 million.

EMERGING BUSINESS

Aliant's emerging businesses are grouped under the ownership of Aliant Horizons Inc. and include wholly-owned Innovatia Inc. (Innovatia), 96 per cent-owned Prexar LLC (Prexar) and 57 per cent-owned AMI Offshore Inc. (AMI). Innovatia is focused on the research and development of Internet-based services for broadband networks and web-based training. Innovatia designs, develops and sells applications to service providers worldwide. Prexar is an Internet services provider operating in the northern New England States. AMI provides process and systems control technical services, and contract manufacturing solutions to the offshore oil and gas and other industries.

Aliant's emerging business revenues decreased 29.2 per cent to \$27.0 million in the first quarter of 2002 from \$38.2 million in 2001 due largely to the sale of K&D Pratt in the fourth quarter of 2001 which contributed \$10.4 million in revenue during the first quarter of 2001. EBITDA decreased by \$3.1 million from \$2.5 million in 2001. First quarter 2001 EBITDA was also favourably impacted by \$2.3 million in gains from the sale of intellectual property, which contributed greatly to the year-over-year variance.

In the first quarter of 2002, Innovatia has seen its revenues decrease 35.9 per cent to \$7.3 million as a result of the general downturn in the telecommunications sector. Reduction in spending on research and development by equipment manufacturers and on training through the

Emerging business operating results (thousands of dollars)

For the quarter ended March 31

	2002	2001	% change
Operating revenues	\$ 27,032	\$ 38,206	(29.2)
Cost of operating revenues	11,997	16,473	(27.2)
Net operating revenues	15,035	21,733	(30.8)
Operating expenses	15,639	19,204	(18.6)
EBITDA	(604)	2,529	—
Depreciation and amortization	3,594	1,468	—
Operating income	(4,198)	1,061	—
Other income (expense)	(5)	4,129	—
Interest	302	418	(27.8)
Income taxes	(1,764)	1,259	—
Non-controlling interest	447	321	39.3
Net income	\$ (3,188)	\$ 3,192	—

equipment manufacturers and their service providers, has resulted in significant reductions in LivingLAB and Interactive Knowledge revenues. In 2001, the Company announced the signing of a master services agreement with Nortel Networks, incorporating two schedules covering DMS and UMTS eLearning services that the Company would provide to Nortel Networks customers. The Company and Nortel Networks intend to reach a written agreement to mutually disengage from the UMTS services schedule due to lower than anticipated demand for UMTS eLearning services by Nortel Networks customers. After the effective date of disengagement, neither party will have any further financial obligation to the other with respect to the UMTS schedule. The master services agreement and incorporated DMS eLearning schedule will not be affected by the UMTS services disengagement.

Prexar's significant market presence in New England continues, with Internet access customers numbering 32,163 at March 31, 2002 and revenues of \$4.1 million. This is an increase of \$0.2 million, or 5.6 per cent, over 2001.

AMI's revenues have declined 23.7 per cent to \$15.8 million in 2002 from \$20.8 million in 2001 due to the divestiture of K&D Pratt Limited offset by increased revenues in SEA Systems related to an oil and gas project off the coast of Brazil.

Aliant Horizon's revenues have decreased from \$2.4 million in 2001 to nil in 2002 due to one-time software sales that occurred in 2001 as previously noted.

Operating expenses have decreased by 18.6 per cent to \$15.6 million in the quarter. The decrease has been experienced in both Innovatia and AMI, reflecting an effort around cost control in light of lower revenues.

Management has revised earlier revenue guidance and anticipates that full year revenues of \$80 to

\$100 million will be achieved. EBITDA of \$5 to \$15 million is still expected.

OTHER CONSOLIDATED RESULTS

Interest expense

Consolidated interest expense decreased from \$42.2 million in the first quarter of 2001 to \$33.7 million in 2002 due to lower interest rates and reduced borrowings across all lines of business.

Interest expense in the telecommunications line of business was reduced by \$2.6 million for the first quarter of 2002 due to declining interest rates and reduced borrowings. Aliant Telecom has been able to reduce its interest costs in part by lowering its total debt position, but also by taking advantage of refinancing maturing long-term debt issues at lower interest rates in recent years. A small reduction in interest expense is also attributable to the sale of an interest rate option contract related to MTT series AD. This transaction, completed in October 2001, provided Aliant Telecom with proceeds of \$7.6 million that will effectively reduce interest costs on this issue until its maturity in 2013.

In December 2001, Aliant Telecom entered into a \$150 million accounts receivable securitization agreement with Scotia Capital whereby it sells accounts receivable on a revolving basis. As of March 31, 2002, the Company had \$140 million of accounts receivable in the program. Securitizing accounts receivable provides the Company with a lower cost source of short-term funds compared to commercial paper borrowing. The cash received was used to repay indebtedness to Aliant Inc. with the excess loaned to Aliant Inc. In turn, Aliant Inc. used the proceeds to retire commercial paper borrowings.

The combined interest expense in all other lines of business and on holding company borrowings has declined overall in the last year. In addition to lower short-term interest rates, the issuance of \$175 million

Emerging business summary (thousands of dollars)

For the quarter ended March 31	2002	2001	Variance	% change
Revenue				
Innovatia	\$ 7,273	\$ 11,345	\$ (4,072)	(35.9)
AMI	15,845	20,770	(4,925)	(23.7)
Prexar	4,134	3,915	219	5.6
Aliant Horizons	—	2,431	(2,431)	—
Eliminations	(220)	(255)	35	—
	\$ 27,032	\$ 38,206	\$ (11,174)	(29.2)
EBITDA				
Innovatia	\$ (1,610)	\$ (293)	\$ (1,317)	—
AMI	1,904	1,126	778	69.1
Prexar	(858)	(564)	(294)	(52.1)
Aliant Horizons	(40)	2,260	(2,300)	—
	\$ (604)	\$ 2,529	\$ (3,133)	—

in preferred shares by Aliant during the second quarter of 2001, and the application of the net proceeds to reduce debt, is having a mitigating impact on interest costs. Aliant's consolidated interest coverage ratio remained constant for the twelve-months ended March 31, 2002 and 2001 at 3.6 times.

Taxes

Aliant's consolidated income tax provision decreased by 32.5 per cent from \$37.4 million for the first quarter of 2001 to \$25.2 million in 2002. This resulted from the recognition of \$7.4 million of tax benefits relating to a portion of the tax loss carry forward of one of its subsidiaries. The Company has developed and if necessary, will implement before the expiry of the losses, a tax strategy that would result in the realization of the tax benefits recognized. In addition, a decline in statutory rates was experienced, offsetting higher net income in the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

Aliant's operating cash flow before changes in non-cash working capital increased 11.2 per cent from \$136.0 million in 2001 to \$151.2 million in 2002. This increase can be attributed to increased cash earnings from operations, recognition of tax benefits relating to a portion of the tax losses carry forward of one of its subsidiaries and lower foreign exchange losses than in the prior year. Management's focus to improve working capital balances continued to see results; the change in non-cash working capital balances improved by \$114.4 million over the same period last year.

Investing activities

Aliant's consolidated capital expenditures for the quarter were \$106.7 million in 2002. This represents a 29.4 per cent decrease over the same period last year. Capital spending at Aliant Telecom was \$86.8 million, a 38.0 per cent reduction over the prior year due to the significant investment in early 2001 to augment its broadband and wireless networks. In the other lines of business, capital spending decreased marginally during 2002. The first quarter capital additions of \$0.7 million in 2001 for remote communications is net of a reclassification in spending on the BT A&M acquisition and differences in yearend accounting estimates between Stratos and Aliant. Removing the effect of

these bring the gross expenditures to \$13.8 million for 2001, 2.9 per cent lower than the first quarter in 2002.

Financing activities

Telecommunications

The primary external source of financing for Aliant Telecom's operations is long-term debt issued to the public. For the foreseeable future, Aliant Telecom will obtain its short-term debt and common equity financing from Aliant. In April 2001, Aliant Telecom filed a renewal shelf prospectus for the issue of \$350 million of Medium Term Notes (MTNs) in the Canadian market. On January 15, 2002 Aliant Telecom issued \$100 million of 5-year notes under this prospectus. This financing is expected to fulfill Aliant Telecom's borrowing needs for the year 2002 and was completed early in the year to take advantage of favorable access to debt markets and low interest rates. The proceeds were temporarily loaned to Aliant to retire commercial paper borrowings, but will eventually be used to retire Aliant Telecom's long-term debt maturities later in the year and to fund the year's capital expenditure program as necessary.

Information technology

The primary sources of financing for xwave are debt and equity investments from Aliant and bank credit facilities. xwave has in place as of March 2002, operating lines of credit totaling \$51 million and acquisition facilities of \$24 million with a syndicate of Canadian chartered banks.

Remote communications

Stratos obtains its debt financing through bank facilities and its common equity financing through the public issue of shares that trade on the Toronto Stock Exchange. Aliant has guaranteed US\$150 million of Stratos' obligations under its credit facilities. Stratos' credit facilities contain various covenants relating to financial results, all of which are currently being met. In March 2002 Stratos and its banking syndicate agreed to amendments to certain terms under the credit facilities that will allow for a further extension of Stratos' bridge loan facility to July 2003, a modification to some of the future financial covenants and a reduction of the interest rates payable on advances under the facilities. Aliant remains committed to assisting Stratos strengthen its balance sheet during 2002.

Capital expenditures (thousands of dollars)

For the quarter ended March 31

	2002	2001	% change
Telecommunications	\$ 86,830	\$ 139,964	(38.0)
Information technology	946	3,982	(76.2)
Remote communications	14,193	651	—
Emerging business	4,583	6,407	(28.5)
Other	100	37	170.3
Total capital expenditures	\$ 106,652	\$ 151,041	(29.4)

Corporate financing

Aliant issued \$27.8 million in common equity during the first quarter by way of its employee share purchase plan, dividend reinvestment plan (DRP) and the exercise of options under its employee stock option plan. Total dividends paid by Aliant to its common shareholders in 2002 rose marginally from 2001 levels due to the increased number of shares outstanding. Aliant is maintaining its annual common dividend payment rate at \$0.90 per share. Aliant also paid preferred share dividends, which totaled \$2.4 million for the quarter.

Aliant had no commercial paper outstanding at March 31, 2002, compared with \$4.9 million in December 31, 2001. Cash from operations, from the lines of business's external financing sources and common share proceeds were sufficient for debt repayment, dividends and investing needs. Aliant maintains lines of credit totaling \$725 million in aggregate with its bankers of which \$350 million is a committed facility supporting the Company's commercial paper program and \$225 million is a total of three committed bank lines held in reserve in support of the guarantee of Stratos' debt. The other \$150 million is a total of Aliant's uncommitted operating lines.

Capital structure

Aliant has maintained its strong capital structure this quarter, with a debt level of 50.8 per cent of capital at March 31, 2002 compared to 50.3 per cent at December 31, 2001. At March 31, 2001 debt as a percentage of capital was 59.0 per cent, reflecting the strong improvement in the Company's capital structure over the past year. The improvement is attributable to the issuance of preferred and common shares, growth in cash flow from operations and selected asset sales, the proceeds of which have been used to reduce debt levels.

It is anticipated that Aliant will continue to generate sufficient internal cash flow to provide for dividend payments, as and when such dividends are declared,

and to fund its capital expenditures and new investments. Also, Aliant has sufficient capacity in its existing and available financing facilities to provide liquidity for existing operations and planned future growth.

CONSOLIDATED OUTLOOK, RISKS AND UNCERTAINTIES

During 2001 Aliant continued to concentrate on executing a long-term growth strategy, evolving the organizational structure to realize merger synergy targets and strengthening the position of each line of business through targeted acquisitions and business expansion. In 2002 Aliant will continue to focus on operational efficiencies and implementation of alignment strategies with Bell Canada. Regulation continues to be an aspect of the operating environment in which Aliant Telecom functions. Price-cap regulation of utility services (which include residential local services and single and multi-line local business services), in particular, limits the growth in revenues from local services by placing a cap on these prices. With price-cap regulation having concluded its initial four-year term in March 2002, there is uncertainty as to what impact, if any, the new rules will have on future prices for utility services. In response, Aliant Telecom has provided its recommendations on revising price-cap regulation to the CRTC. A decision on the new price-cap regime should be known by April 2002.

In order to achieve Aliant's overall growth objectives for 2002 and beyond, the higher-growth lines of business have to compensate for the moderating trends expected in telecommunications. Additional value of \$60 to \$120 million in revenues is anticipated from the continued implementation of the Aliant Premium™ model. Also, challenges being created by rapidly advancing technology, competition and economic downturn will have to be met. Aliant is ready to meet these challenges. From the foundation put in place in 2001 and the positive first quarter experienced in 2002, Aliant is in a strong position to weather this period of transition and to continue its leadership position in the industry.

Consolidated capital structure (thousands of dollars)

	March 31, 2002		December 31, 2001	
Common equity	\$ 1,458,253	42.3%	\$ 1,410,715	42.7%
Preferred equity	172,264	5.0%	172,264	5.2%
Non-controlling interest	66,780	1.9%	61,029	1.8%
Long term-debt (including current portion)	1,645,214	47.8%	1,545,529	46.7%
Short term-debt, including bank indebtedness and interest payable	102,315	3.0%	120,778	3.6%
	\$ 3,444,826	100.0%	\$ 3,310,315	100.0%

Statements

Consolidated balance sheets (unaudited)

<i>(thousands of dollars)</i>	As at March 31, 2002	As at December 31, 2001 <i>(as restated, note 2)</i>
ASSETS		
Current assets		
Cash and short-term investments	\$ 244,864	\$ 131,558
Accounts receivable <i>(note 3)</i>	517,884	482,454
Inventory	31,742	36,046
Prepayments	47,509	34,947
Future income tax asset	18,092	17,500
	860,091	702,505
Capital assets – net <i>(note 4)</i>	2,352,809	2,346,599
Other assets		
Long-term investments <i>(note 5)</i>	64,458	65,501
Deferred charges	107,275	121,474
Future income tax asset	28,289	9,881
Goodwill <i>(note 6)</i>	415,987	418,286
	616,009	615,142
Total assets	\$ 3,828,909	\$ 3,664,246
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable and bank advances <i>(note 7)</i>	73,395	103,156
Payables and accruals	362,853	311,915
Long-term debt due within one year <i>(note 8)</i>	100,435	84,788
	536,683	499,859
Long-term debt <i>(note 8)</i>	1,544,779	1,460,741
Accrued benefit obligation	36,206	43,758
Deferred credits	13,944	15,880
	2,131,612	2,020,238
Non-controlling interest <i>(note 9)</i>	66,780	61,029
Shareholders' equity		
Capital stock <i>(note 10)</i>	1,214,509	1,186,680
Contributed surplus	69,320	69,320
Retained earnings	346,688	326,979
	1,630,517	1,582,979
Total liabilities and shareholders' equity	\$ 3,828,909	\$ 3,664,246

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors:



Charles White
Chairman



Edward Reevey
Director

Consolidated statements of income (unaudited)

<i>For the three months ended March 31 (thousands of dollars)</i>	2002	2001 <i>(as restated, note 2)</i>
Operating revenues <i>(note 11)</i>	\$ 645,647	\$ 638,359
Expenses		
Cost of operating revenues	191,750	178,208
Operating expenses	226,021	248,567
Depreciation and amortization	107,851	108,187
Restructuring charge <i>(note 12)</i>	—	—
	525,622	534,962
Operating income	120,025	103,397
Other income (expenses)		
Loss on foreign exchange <i>(note 2)</i>	(458)	(27,800)
Other income (expenses)	(1,475)	1,541
	(1,933)	(26,259)
Interest charges		
Interest on long-term debt	33,343	38,417
Other interest	402	3,745
	33,745	42,162
Income before underlisted items	84,347	34,976
Income taxes <i>(note 13)</i>	25,214	37,379
Income (loss) before non-controlling interest	59,133	(2,403)
Non-controlling interest share of (income) losses	(5,680)	16,760
Net income	\$ 53,453	\$ 14,357
Net income	\$ 53,453	\$ 14,357
Add back: amortization of goodwill	—	6,154
Net income before amortization of goodwill	\$ 53,453	\$ 20,511
Earnings per common share <i>(note 14)</i>		
Basic	\$ 0.37	\$ 0.11
Add back: amortization of goodwill	—	0.04
Adjusted basic	\$ 0.37	\$ 0.15
Diluted	\$ 0.37	\$ 0.11
Add back: amortization of goodwill	—	0.04
Adjusted diluted	\$ 0.37	\$ 0.15

See accompanying notes to the consolidated financial statements

Consolidated statements of retained earnings (unaudited)

<i>For the three months ended March 31 (thousands of dollars)</i>	2002	2001 <i>(as restated, note 2)</i>
Balance, beginning of period as previously reported	\$ 343,807	\$ 351,482
Change in accounting policy for foreign currency translation <i>(note 2)</i>	(16,828)	—
	326,979	351,482
Change in accounting policy for stock based compensation <i>(note 2)</i>	(369)	—
Balance, beginning of period as restated	\$ 326,610	\$ 351,482
Net income	53,453	14,357
Preferred share dividends	(2,384)	—
Common share dividends	(30,991)	(30,082)
Balance, end of period	\$ 346,688	\$ 335,757

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows (unaudited)

<i>For the three months ended March 31 (thousands of dollars)</i>	2002	2001 <i>(as restated, note 2)</i>
Cash and cash equivalents from (used in) operations		
Net income	\$ 53,453	\$ 14,357
Add (deduct) non-cash items		
Depreciation and amortization	107,797	108,405
Loss on foreign exchange	458	27,800
Future income taxes	(19,000)	5,508
Other non-cash items	2,407	(4,084)
Share in earnings of equity accounted investments	386	743
Non-controlling interest share of income (losses)	5,680	(16,760)
	151,181	135,969
Change in non-cash working capital balances related to operations	3,545	(110,828)
	154,726	25,141
Cash and cash equivalents from (used in) financing		
Sale (repurchase) of accounts receivable	(10,000)	—
Net proceeds (repayments) of notes payable and bank advances	(29,761)	89,231
Proceeds from long-term debt	100,000	380,670
Repayments of long-term debt	(806)	(358,583)
Increase in non-controlling interest	—	3,792
Proceeds from issue of common shares <i>(note 10)</i>	9,335	6,450
Preferred share dividends	(2,384)	—
Common share dividends	(12,497)	(27,653)
	53,887	93,907
Cash and cash equivalents from (used in) investing		
Capital expenditures	(106,652)	(151,041)
Proceeds on sale of investments	972	1,933
Investments	(251)	5,006
Increase (decrease) in other deferred charges	10,624	(15,592)
Purchase of subsidiaries' net assets and goodwill	—	(1,212)
	(95,307)	(160,906)
Change in cash and short-term investments	113,306	(41,858)
Cash and short-term investments, beginning of period	131,558	80,492
Cash and short-term investments, end of period	\$ 244,864	\$ 38,634
Supplementary disclosure		
Interest paid	\$ 21,774	\$ 36,497
Income taxes paid	\$ 48,585	\$ 47,621

See accompanying notes to the consolidated financial statements

Statement notes

Notes to the consolidated financial statements (unaudited)

NOTE 1

Interim financial statements

The accounting policies and methods followed for interim reporting purposes are consistent with those in effect for the most recent annual financial statement for the year ended December 31, 2001, except as

explained below in accounting changes. These unaudited interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001.

NOTE 2

Summary of significant accounting policies

Consolidated financial statements

The consolidated financial statements include the accounts of Aliant Inc. (the "Company") and all entities that are controlled by the Company.

At March 31, 2002, the principal subsidiaries of the Company include: Aliant Telecom Inc., Aliant Information Technology Inc., Xwave Solutions Inc., Aliant Horizons Inc., Stratos Global Corporation, AMI Offshore Inc., Innovatia Inc., Prexar LLC, 515713 N.B. Inc., and Aliant Energy Services Inc.

The Company accounts for its interest in Joint Ventures by proportionate consolidation.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Regulation

Aliant Telecom Inc., the Company's major telecommunications subsidiary, is subject to regulation by the Canadian Radio-television and Telecommunications Commission ("CRTC").

Cash and short-term investments

Cash and short-term investments consist of cash on hand and balances with banks, and investments in money market instruments of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. The Company uses the indirect method to prepare its cash flow statement.

Transfer of receivables

The Company entered into a Purchase and Sale

Agreement under which it sells its interest in a pool of present and future eligible accounts receivable to a securitization trust that issues securities to investors. These transactions are accounted for as sales when the Company is considered to have surrendered control over the transferred accounts receivable and receives proceeds from the trust, other than a beneficial interest in the assets sold. Losses or gains on these transactions are recognized as other expenses or income and are dependent in part on the previous carrying amount of the accounts receivable transferred, which is allocated between the accounts receivable sold and the retained interest, based on their relative value at the date of the transfer. The Company determines fair value based on the present value of future expected cash flows using management's best estimates of key assumptions such as discount rates, weighted average life of accounts receivable and credit loss ratios.

The accounts receivable are transferred on a fully serviced basis. As a result, the Company recognizes a servicing liability on the date of the transfer and amortizes this liability to income over the expected life of the transferred accounts receivable.

Inventory

Inventory is valued at the lower of cost and net realizable value.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized

NOTE 2

Summary of significant accounting policies (continued)

in income in the period that the change occurs.

Capital assets

Capital assets are recorded at cost. Depreciation is computed on a straight-line basis (outlined in the table below) over the useful lives of the assets.

Asset	Method	Rate
Buildings	StraightLine	32 – 42 years
Plant	StraightLine	14 years
Machinery and equipment	StraightLine	3 – 5 years

Gains and losses on the disposal of capital assets are included in income in the year they occur.

Investments

The Company accounts for its investments in affiliated companies over which it has significant influence on the equity basis of accounting, whereby the investments are initially recorded at cost, and subsequently adjusted to recognize the Company's share of earnings or losses of the investee companies and reduced by dividends received.

Portfolio investments are accounted for on the cost basis. Declines in market value below cost are recognized when such declines are considered to be other than temporary.

Deferred charges

Deferred charges include debt issue costs, which are amortized on a straight-line basis over the term of the related debt. Also included in deferred charges are cellular dealer commissions and hardware subsidies, which are amortized over the length of customer contracts, as well as Internet commissions, which are amortized over a defined customer relationship period.

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. The Company annually reviews goodwill of all its reporting units to ensure that its fair value remains greater than, or equal to, carrying value. Any impairment in the value of goodwill is charged to earnings in the period such impairment is determined.

Post employment benefits

The Company maintains both contributory defined contribution and non-contributory defined benefit final average pension plans for the benefit of employees of certain subsidiaries.

The Company also offers other non-pension post employment benefits to employees of certain subsidiaries, including life insurance and health care plans. Obligations under the employee benefit plans are accrued as the employees render the service necessary to earn the

pension and other employee future benefits.

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Company has adopted the following policies for its defined benefit pension plans and other retirement benefits:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.
- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

Earnings per share

Earnings per share is based on the weighted average number of 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 share and dilutive common share equivalents.

Stock-based compensation plan

The Company has a stock-based compensation plan for directors, executives and certain senior managers, which is described in note 15. No compensation expense is recognized when stock options are issued. Consideration paid on exercise of stock options is credited to share capital. Compensation expense is recognized for the Company's contributions to the Employee Share Purchase Plan.

A subsidiary of the Company has a stock-based compensation plan specific to their own shares. A participant in this plan may elect to cash settle the options in lieu of exercising them. The variable accounting method is used to record the compensation expense on these options. Under this method, these rewards result in the subsidiary recognizing a liability. Changes in the amount of this liability due to stock price changes are recorded as compensation expense.

Foreign currency translation

Assets and liabilities of the Company's integrated foreign operations (including Stratos Global Corporation) are

NOTE 2

Summary of significant accounting policies (continued)

translated using the temporal method whereby monetary items are translated at exchange rates prevailing at the balance sheet date, which was US\$1.00 = Cdn\$1.59 at March 31, 2002 (US\$1.00 = Cdn\$1.59 at December 31, 2001) and non-monetary items at historical rates. Revenues and expenses are translated at the average exchange rate. Exchange gains and losses arising from the translation of foreign currency items are included in income.

Accounting changes

Effective January 1, 2002, the Company adopted the new accounting standards of the Canadian Institute of Chartered Accountants (CICA) with regard to Foreign Currency Translation, Stock-Based Compensation and

Other Stock-Based Payments and Goodwill and Other Intangibles.

(a) Foreign currency translation

All exchange gains and losses arising from the translation of foreign currency items are now included in income. Previously, unrealized foreign exchange gains or losses in relation to long-term debt balances were deferred and amortized over the remaining term of the related debt.

As required under the new standards, this change was adopted retroactively with restatement of prior period balances. The following table outlines the impact of these changes:

<small>(thousands of dollars)</small>	Three months ended March 31, 2002	Three months ended March 31, 2001	Year ended December 31, 2001
Consolidated statements of income			
Increase (decrease) to:			
Loss on foreign exchange	\$ 458	\$ 27,800	\$ 30,938
Depreciation and amortization	—	(1,070)	(4,416)
Income taxes	96	246	1,016
Non-controlling interest	(141)	(10,491)	(10,710)
Net income	(221)	(16,485)	(16,828)
Consolidated balance sheets			
Increase (decrease) to:			
Deferred charges	—	(26,730)	(26,522)
Future income tax liability	96	246	1,016
Non-controlling interest	(141)	(10,491)	(10,710)
Retained earnings	(221)	(16,485)	(16,828)

Basic and diluted earnings per share for March 31, 2001 decreased by \$0.12 (December 31, 2001 – \$0.12) as previously reported.

(b) Stock-based compensation

The Company continues to record no compensation expense upon issuance of stock options under its own stock option plan in accordance with CICA accounting standards. However, as required by the new standards, the Company is disclosing the pro-forma net income and pro-forma earnings per share using the fair market value method of accounting for stock-based compensation awards. This pro-forma information is presented in note 14.

Under a subsidiary company's employee stock option plan, the requirements of the new standards have been adopted retroactively. As a result of this change, opening retained earnings was decreased by \$0.4 million and accounts payable and accrued liabilities were increased by \$0.4 million. During the period ended March 31, 2002, there was no additional compensation expense recorded.

(c) Goodwill and other intangibles

Previously, recorded goodwill was amortized on a

straight-line basis over the estimated life of ten to twenty years. In addition, the Company would periodically evaluate the carrying value of goodwill for potential permanent impairment through ongoing review and analysis of fair market value and expected earnings. A permanent impairment in the value of goodwill was charged to earnings in the year such impairment was determined.

Under the new accounting standards, goodwill and intangibles with an indefinite life are no longer amortized. Entities are also required to perform an impairment test as of January 1, 2002 to ascertain whether they should recognize a decline in the carrying value of any recorded goodwill balances. Any impairment provision recognized as a result of the adoption of these new standards is to be charged to opening retained earnings. This impairment test is required to be re-performed on at least an annual basis and any subsequent impairment provisions would be charged to income at that date.

The Company has commenced its goodwill impairment assessment process. Should any impairment provision be required it will be recorded as an adjustment to retained earnings during 2002 as permitted by the new standards.

NOTE 3

Transfer of receivables

Under an agreement dated December 13, 2001, the Company sells certain accounts receivable to a securitization trust. The excess of amounts transferred over the cash proceeds represents the Company's retained interest and the amount of overcollateralization in the receivables transferred and is included in long-term assets. The Company remains exposed to certain risks of default on the amount of receivables under securitization. It has provided various credit enhancements in the form of overcollateralization and subordination of its retained interests. The purchaser and its investors have no recourse to the Company's other assets for failure of the obligator to pay the amounts when due.

Under the agreement receivables are sold on a fully serviced basis, so that the Company continues to administer the collection of such receivables. The Purchaser will re-invest the funds from collections in the purchase of additional interests in the Company's accounts receivable until the expiration of the agreement on December 13, 2006.

As at March 31, 2002, the Company had sold \$140 million (December 31, 2001 – \$150 million) of accounts receivable and transferred \$165.4 million (December 31, 2001 – \$176.8 million) of receivables to the trust.

NOTE 4

Capital assets

For the period ended March 31 (thousands of dollars)

	Cost	2002	
		Accumulated depreciation	Net book value
Land	\$ 16,855	\$ —	\$ 16,855
Buildings	334,201	159,922	174,279
Plant	4,075,971	2,454,910	1,621,061
Machinery and equipment	866,701	403,373	463,328
Plant under construction	58,910	—	58,910
Materials and supplies	18,376	—	18,376
Total capital assets	\$ 5,371,014	\$ 3,018,205	\$ 2,352,809

For the period ended December 31 (thousands of dollars)

	Cost	2001	
		Accumulated depreciation	Net book value
Land	\$ 16,888	\$ —	\$ 16,888
Buildings	333,361	157,680	175,681
Plant	4,054,070	2,419,011	1,635,059
Machinery and equipment	851,437	380,848	470,589
Plant under construction	39,771	—	39,771
Materials and supplies	8,611	—	8,611
Total capital assets	\$ 5,304,138	\$ 2,957,539	\$ 2,346,599

NOTE 5

Long-term investments

(thousands of dollars)

	March 31, 2002	December 31, 2001
Investments subject to significant influence	\$ 23,059	\$ 23,534
Portfolio investments	41,399	41,967
	\$ 64,458	\$ 65,501

NOTE 6
Goodwill

<i>(thousands of dollars)</i>	March 31, 2002	December 31, 2001
Goodwill, at cost	\$ 459,092	\$ 461,391
Accumulated amortization	(43,105)	(43,105)
	\$ 415,987	\$ 418,286

NOTE 7

Notes payable and bank advances

At March 31, 2002 the Company has \$nil million (December 31, 2001 – \$4.9 million) outstanding under its commercial paper program. The Company has lines of credit available of \$725 million (December 31, 2001 – \$725 million). These lines consist of \$350 million (December 31, 2001 – \$350 million) in

committed lines supporting the Company's commercial paper program, \$225 million (December 31, 2001 – \$225 million) in committed lines supporting a Stratos loan guarantee and \$150 million (December 31, 2001 – \$150 million) in uncommitted operating lines.

NOTE 8

Long-term debt

<i>(thousands of dollars)</i>	Interest rate	Maturity	March 31, 2002	December 31, 2001
Telecommunications				
Notes	5.359% – 6.80%	2006 – 2011	\$ 600,000	\$ 500,000
Bonds	8.76% – 12.25%	2006 – 2019	197,500	197,500
Debentures	6.40% – 11.125%	2002 – 2025	315,000	315,000
Other			2,004	2,009
			1,114,504	1,014,509
Present value of obligations under capital leases			1,765	2,092
Total – Telecommunications			1,116,269	1,016,601
Information technology				
Mortgages	Prime plus 1.00% – 1.50%	2002	2,031	1,879
Present value of obligations under capital leases			65	330
Total - Information technology			2,096	2,209
Remote communications				
Term debt	LIBOR + 3.50%	2005	318,840	318,560
Acquisition facility	LIBOR + 3.50%	2003	199,275	199,100
Other			2,731	2,815
Total – Remote communications			520,846	520,475
Emerging business				
Mortgages	6.89%	2004	1,482	1,501
Bank loans	7.02% – 7.59%	2004	2,939	3,239
Other	0% – Prime plus 4.00%	2004 – 2007	1,170	1,101
Present value of obligations under capital leases			412	403
Total - Emerging business			6,003	6,244
Total long-term debt			1,645,214	1,545,529
Less: Portion due within one year			100,435	84,788
			\$ 1,544,779	\$ 1,460,741

During the period, the Company issued \$100 million of 5 year medium term notes pursuant to its base shelf prospectus dated April 27, 2001. These notes carry a

coupon rate of 5.35 per cent payable semi-annually and mature on January 15, 2007.

NOTE 9

Non-controlling interest

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

<i>(thousands of dollars)</i>	March 31, 2002	December 31, 2001
Stratos Global Corporation	\$ 57,730	\$ 52,657
TechKnowledge Inc.	803	835
Atlantic Mobility Products Ltd.	1,397	1,165
Prexar LLC	498	572
Sablecom	1,875	1,834
Transtech Engineering Inc.	47	49
AMI Offshore Limited	4,430	3,917
	\$ 66,780	\$ 61,029

NOTE 10

Capital stock

Authorized

Unlimited number of preference shares, issuable in series.

Unlimited number of common shares.

Issued

<i>(thousands of dollars)</i>	March 31, 2002		December 31, 2001	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares without par value	138,622,459	1,042,245	137,526,147	1,014,416
		\$1,214,509		\$1,186,680

Company issued the following common shares:

<i>(thousands of dollars)</i>	March 31, 2002		December 31, 2001	
	Number of shares	Value	Number of shares	Value
For cash:				
Stock option plan <i>(note 15)</i>	221,170	\$ 3,464	336,488	\$ 5,072
Common shareholder dividend reinvestment and stock purchase plan	637,943	17,745	1,836,679	54,353
Employees' stock savings plan <i>(note 15)</i>	237,199	6,620	1,015,997	32,390
	1,096,312	\$ 27,829	3,189,164	\$ 91,815

Under the provisions of the Company's common shareholder dividend reinvestment and stock purchase plan and employees' stock savings plan, shareholders purchase additional common shares in lieu of receiving corporate dividends in the form of cash.

During the period, the Company issued shares in relation to the common shareholder dividend reinvestment and stock purchase plan as well as the employees' stock savings plan in lieu of paying cash dividend in the amount of \$18.5 million.

NOTE 11

Segmented information

The Company operates through four 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 is Aliant Telecom Inc.

Information technology – provides systems integration, application development, local area network installation, wide area network management, data center operations, VAR and information technology planning services. Included in this line of business is Xwave Solutions Inc.

Remote communications – provides a full range of satellite communications services to clients in the international marketplace. Included in this line of business are Stratos Global Corporation and its subsidiaries.

Emerging business – focused on developing and nurturing new technology-based products and services such as: (1) computer telephony integration, TV over

copper, high-speed e-commerce, and new media. This includes Innovatia Inc.; and (2) supply and service of the east coast oil and gas industry as conducted by AMI Offshore Limited.

These reportable segments are managed as separate business units as they operate in different industries and require different market strategies and technologies.

The accounting policies of the segments are the same as those described in note 2. The Company evaluates performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

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

For the three month period ended March 31 (thousands of dollars)

	2002						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$ 409,256	\$ 83,502	\$ 126,540	\$ 25,897	\$ 452	\$ —	\$ 645,647
Intersegment revenue	5,028	38,024	—	1,135	—	(44,187)	—
Operating revenue	414,284	121,526	126,540	27,032	452	(44,187)	645,647
Operating expenses	217,354	112,946	95,127	27,636	7,045	(42,337)	417,771
Depreciation and amortization	91,327	2,855	9,757	3,594	318	—	107,851
Gain (loss) on foreign exchange	—	—	(458)	—	—	—	(458)
Other income (expenses)	(843)	29	(193)	(5)	2,165	(2,628)	(1,475)
Interest expense	21,688	373	12,439	302	1,571	(2,628)	33,745
Income taxes	31,745	2,484	(4,479)	(1,764)	(1,937)	(835)	25,214
Non-controlling interest	193	(33)	5,073	447	—	—	5,680
Net income (loss)	\$ 51,134	\$ 2,930	\$ 7,972	\$ (3,188)	\$ (4,380)	\$ (1,015)	\$ 53,453
Total assets	\$2,723,556	\$ 275,515	\$ 802,331	\$ 167,525	\$1,920,673	\$(2,060,691)	\$3,828,909
Capital expenditures	\$ 86,830	\$ 946	\$ 14,193	\$ 4,583	\$ 100	\$ —	\$ 106,652

NOTE 11

Segmented information *(continued)*

	2001 <i>(restated, note 2)</i>						
	<i>For the three month period ended March 31 (thousands of dollars)</i>						
	Telecommunications	Information technology	Remote communications	Emerging business	All others	Eliminations	Consolidated
Revenue from							
external customers	\$ 434,225	\$ 74,724	\$ 100,641	\$ 28,676	\$ 93	\$ —	\$ 638,359
Intersegment revenue	4,067	34,990	—	9,530	—	(48,587)	—
Operating revenue	438,292	109,714	100,641	38,206	93	(48,587)	638,359
Operating expenses	249,992	99,094	82,760	35,677	5,956	(46,704)	426,775
Depreciation and amortization	87,895	3,520	13,321	1,468	75	1,908	108,187
Gain (loss) on foreign exchange	—	—	(27,800)	—	—	—	(27,800)
Other income (expenses)	1,092	27	(3,483)	4,129	2,967	(3,191)	1,541
Interest expense	24,273	465	15,426	418	4,771	(3,191)	42,162
Income taxes	35,316	3,354	1,941	1,259	(3,641)	(850)	37,379
Non-controlling interest	289	(16)	(17,354)	321	—	—	(16,760)
Net income (loss)	\$ 41,619	\$ 3,324	\$ (26,736)	\$ 3,192	\$ (4,101)	\$ (2,941)	\$ 14,357
Total assets	\$2,636,645	\$ 261,728	\$ 842,145	\$ 149,501	\$1,747,640	\$ (1,703,081)	\$3,934,578
Capital expenditures	\$ 139,964	\$ 3,982	\$ 651	\$ 6,407	\$ 37	\$ —	\$ 151,041

Revenue by product and service

	2002	2001
<i>For the three month period ended March 31 (thousands of dollars)</i>		
Telecommunications		
Local	\$ 189,959	\$ 211,764
Long distance	97,235	101,509
Wireless	61,224	54,912
Other telecommunications	60,838	66,040
	409,256	434,225
Information technology		
Products	54,904	37,878
Services	28,598	36,846
	83,502	74,724
Remote communications		
Mobile satellite services	90,606	67,743
Broadband services	35,934	32,898
	126,540	100,641
Emerging business	25,897	28,676
Other	452	93
	\$ 645,647	\$ 638,359

NOTE 12

Restructuring charge

During 2001, the Company commenced a significant organizational restructuring which resulted in a charge of \$111 million against earnings. The action taken in 2001 to effect the restructuring was an acceleration of long-term plans for continued efforts to realize cost savings and efficiencies resulting from the consolidation and integration of its operations.

Costs associated with workforce reduction and operational integration continues to be charged against the restructuring provision recorded at December 31,

2001. These costs include severance, pension costs and benefits as well as costs to consolidate systems and services, downsize business units, terminate contracts and streamline management and administration functions.

As at March 31, 2002, the balance of this restructuring provision totaled \$56.4 million (December 31, 2001 – \$69.0 million). The remaining provision will be substantially drawn down during 2002, as the consolidation and integration of its operations are completed.

NOTE 13

Income taxes

During the period, the Company recognized \$7.4 million of tax benefits relating to a portion of the tax losses carry forward of one of its subsidiaries. The

Company has developed and if necessary, will implement before the expiry of the losses, a tax strategy that would result in the realization of the tax benefits recognized.

NOTE 14

Earnings per common share

<i>For the three months ended March 31 (thousands of dollars except per share amounts)</i>	2002	2001
Reconciliation of net income available to common shareholders		
Net income	\$ 53,453	\$ 14,357
Preferred share dividends	(2,384)	—
	\$ 51,069	\$ 14,357
Basic		
Average number of common shares outstanding	137,885	134,572
Per share amount	\$ 0.37	\$ 0.11
Diluted		
Average number of common shares outstanding	137,885	134,572
Impact of outstanding stock options	145	723
	138,030	135,295
Per share amount	\$ 0.37	\$ 0.11

The table below presents pro-forma net income, earnings per share and diluted earnings per share using the fair market value method of accounting for stock-based compensation. The pro-forma adjustments

presented below pertain to new awards granted since adoption of the new stock-based compensation standards on January 1, 2002 as described in note 2.

<i>For the three months ended March 31 (thousands of dollars except per share amounts)</i>	2002
Reconciliation of pro-forma net income available to common shareholders	
Net income	\$ 53,453
Preferred share dividends	(2,384)
Pro-forma adjustments	(298)
Pro-forma net income available to common shareholders	\$ 50,771
Basic	
Average number of common shares outstanding	137,885
Pro-forma earnings per share amount	\$ 0.37
Diluted	
Average number of common shares outstanding	137,885
Impact of outstanding stock options	145
	138,030
Pro-forma earnings per share amount	\$ 0.37

The fair value of each option grant is estimated on the date of grant using the Black Scholes option pricing model with the following weighted average assumptions used for grants:

<i>March 31</i>	2002
Dividend yield	3.10%
Expected volatility	24.6%
Risk-free interest rate	5.08%
Expected lives	7.8 years

NOTE 15

Stock-based compensation plans

At March 31, 2002 the Company has the following stock-based compensation plans.

Stock option plan

Under the stock option plan, the Company may grant options to plan members for up to 6,500,000 shares of common stock. The exercise price of each option equals the market price of the Company's stock on the

date of grant and an option's maximum term is ten years. Options become fully vested three years from the date they are granted under the plan.

A summary of the status of the Company's stock option plan as of March 31, 2002 and December 31, 2001, and changes during the periods ended on those dates is presented below:

	March 31, 2002		December 31, 2001	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of period	2,558,275	\$ 26.67	2,478,674	\$ 23.26
Granted	478,049	29.12	416,089	35.34
Exercised	221,170	15.66	336,488	15.07
Options outstanding at end of period	2,815,154	27.96	2,558,275	26.67
Options exercisable at end of period	1,786,517	\$ 28.69	1,614,550	\$ 21.53

The following table summarizes information about stock options outstanding at March 31, 2002:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at March 31, 2002	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable at March 31, 2002	Weighted-average exercise price
\$10.625 to \$15.718	340,060	4.4	\$13.900	340,060	\$13.900
\$17.557 to \$20.079	245,951	5.8	\$19.913	244,030	\$19.931
\$21.768 to \$25.552	434,385	6.8	\$22.925	399,308	\$22.912
\$29.120 to \$34.900	1,297,832	8.7	\$32.001	580,062	\$33.590
\$35.250 to \$38.100	496,926	8.8	\$35.422	223,057	\$35.416
	2,815,154			1,786,517	

The Company expects that approximately 95 per cent of the nonvested awards at March 31, 2002 will eventually vest.

Employees' stock savings plan

Under the employees' stock savings plan, the Company is authorized to issue up to 3,500,000 shares of common stock to its full-time employees, nearly all of whom are eligible to participate.

Under the terms of the plan, employees can choose each year to have a portion of their annual base earnings withheld to purchase the Company's common stock. The Company contributes to the plan on behalf of eligible participants based upon a prescribed formula. The purchase price of the stock is the arithmetic average of the closing price of the shares traded on The Toronto Stock Exchange on the last five days up to, and including, the dividend payment date. Over 80 per cent of eligible employees are participating in the plan. Under the plan, the Company sold 237,199 shares to employees from

January 1 to March 31, 2002.

Employees' stock option plan of a subsidiary company

A subsidiary of the Company has a stock option plan specific to their own shares. Under this stock option plan, the subsidiary may grant options to plan members at the discretion of the Board of Directors. The exercise price of each option equals the fair market value price of the Company's stock on the date of grant and an option's maximum term is ten years. Options become fully vested upon the date they are granted under the plan. A participant in this plan may elect to cash settle the options in lieu of exercising them.

As at March 31, 2002, there were 252,015 (December 31, 2001 – 252,015) options outstanding and exercisable. The weighted average remaining contractual life of the options is 6.4 years (December 31, 2001 – 6.6 years) and the weighted average exercise price is \$3.79 (December 31, 2001 – \$3.79).

NOTE 16

Contingencies

An international arbitration action for approximately US\$8.0 million was initiated in 1999 against certain subsidiaries of the Company claiming breach of contract. In December 2000 an arbitrator rejected the claimant's arguments. The arbitrator adopted a new theory that the subsidiaries breached the contract on other grounds. The arbitrator required the subsidiaries to submit data for the damages phase and the subsidiaries are now awaiting a final decision on damages from the arbitrator. Management's estimate of the potential

loss has been accrued in these financial statements.

An action has been commenced against the Company by 132 former employees who took early retirement under the 1998 early retirement incentive program. The former employees seek damages 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.

NOTE 17

Comparative figures

The comparative financial information has been restated to conform to the presentation adopted for 2002.

Shareholders

Owning AIT

We're here to help

To learn more about Aliant and to view the latest news releases, please visit our Web site at www.aliant.ca. Contact Aliant investor relations for additional financial and statistical information, and industry developments.

Phone: 1.877.248.3113
Fax: 1.877.498.2464
Email: investor.relations@aliant.ca

Contact our transfer agent, CIBC Mellon Trust Company, for information about the dividend reinvestment and stock purchase plan (DRP) and for answers to shareholder inquiries.

Phone: 1.800.387.0825
Email: inquiries@cibcmellon.com
Web site: www.cibcmellon.com

Where we're listed

Our shares are listed on The Toronto Stock Exchange. Aliant's ticker symbol is AIT.

Direct deposit of dividends

Registered common shareholders may have dividends deposited electronically into their bank account (in Canada only). Contact CIBC Mellon Trust Company.

Dividend dates for 2002*

Record dates	Payment dates
March 15	March 30
June 15	June 30
September 15	September 30
December 15	December 30

* Subject to approval by the board of directors

Dividend reinvestment plan

Registered common shareholders of Aliant may reinvest their dividends, automatically and without fees, in additional shares of the Company. Also, up to \$10,000 in Company shares may be purchased each quarter with optional cash payments. The Company pays all administration costs. Approximately 40 per cent of registered shareholders are enrolled in the plan. A brochure containing information on the dividend reinvestment and stock purchase plan may be obtained by calling CIBC Mellon Trust Company.

Common share price range*

	January	February	March
High	\$ 30.35	\$ 29.75	\$ 31.00
Low	\$ 28.50	\$ 28.96	\$ 26.43
Close	\$ 29.50	\$ 29.50	\$ 26.65

* Toronto Stock Exchange

Performance numbers

For the quarter ended as at March 31

	2002	2001	% change
Network access services – landlines	1,525,247	1,556,704	(2.0)
Network access services – cellular	492,389	404,701	21.7
Internet subscribers – high speed	80,560	47,334	70.2
Internet subscribers – dial-up	198,045	186,185	6.4
Long distance conversation minutes	901,773,000	886,979,000	1.7
Employees	10,639	10,404	2.0
Quarter-end stock price	\$ 26.65	\$ 35.85	(25.7)

Aliant Inc.
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Visit our Web site to listen to a recorded analysts' conference call discussing our first quarter results.

