

ALiant INC.

(Incorporated under the laws of Canada)

**INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

December 31, 2003



ALIAN T INC.
Consolidated balance sheets
(Unaudited)

<i>(thousands of dollars)</i>	As at December 31, 2003	As at December 31, 2002
		<i>(Note 2)</i>
Assets		
Current assets		
Cash and short-term investments	\$ 365,330	\$ 178,212
Accounts receivable (Notes 3 and 19)	315,903	306,349
Inventory	21,177	17,092
Prepayments	25,871	17,229
Income tax receivable (Note 4)	23,423	55,536
Current assets of discontinued operations (Note 2)	-	211,270
	<u>751,704</u>	<u>785,688</u>
Capital investments (Note 5)	<u>2,013,522</u>	<u>2,076,470</u>
Other assets		
Long-term investments	-	11,506
Deferred charges	92,932	91,864
Future income tax asset (Note 4)	12,891	16,811
Accrued benefit asset (Note 6)	163,440	74,674
Goodwill (Note 7)	31,804	31,804
Non-current assets of discontinued operations (Note 2)	-	652,905
	<u>301,067</u>	<u>879,564</u>
Total assets	\$ 3,066,293	\$ 3,741,722
Liabilities and shareholders' equity		
Current liabilities		
Notes payable and bank advances (Note 8)	\$ 17,827	\$ 46,591
Payables and accruals (Notes 9 and 19)	238,332	139,150
Income tax payable (Note 4)	18,806	12,655
Future income tax liability (Note 4)	3,797	6,953
Long-term debt due within one year (Note 10)	101,535	68,724
Current liabilities of discontinued operations (Note 2)	-	187,622
	<u>380,297</u>	<u>461,695</u>
Long-term debt (Note 10)	888,524	995,648
Accrued benefit liability (Note 6)	159,156	148,547
Deferred credits	10,337	10,919
Non-current liabilities of discontinued operations (Note 2)	-	451,064
	<u>1,438,314</u>	<u>2,067,873</u>
Non-controlling interest (Note 11)	<u>4,051</u>	<u>3,274</u>
Shareholders' equity		
Capital stock (Note 12)	1,208,062	1,242,815
Contributed surplus (Note 12)	-	64,155
Retained earnings	415,866	354,080
Cumulative translation adjustment	-	9,525
	<u>1,623,928</u>	<u>1,670,575</u>
Total liabilities and shareholders' equity	\$ 3,066,293	\$ 3,741,722

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Chairman:

Director:

ALIANT INC.
Consolidated statements of income
(Unaudited)
For the period ended December 31

<i>(thousands of dollars except per share amounts)</i>	Three months		Twelve months	
	2003	2002 (Note 2)	2003	2002 (Note 2)
Operating revenues (Note 13)	\$ 528,623	\$ 513,222	\$ 2,069,389	\$ 2,046,474
Expenses				
Cost of operating revenues	82,953	90,321	310,718	361,487
Operating expenses	234,980	205,481	929,320	849,099
Depreciation and amortization	95,712	96,951	390,597	385,604
Restructuring charge (Note 9)	(950)	-	14,550	-
	412,695	392,753	1,645,185	1,596,190
Operating income	115,928	120,469	424,204	450,284
Other income (expenses) (Note 14)				
Writedown of goodwill	-	(50,000)	-	(50,000)
Other income (expenses)	(9,785)	4,536	(8,203)	159
	(9,785)	(45,464)	(8,203)	(49,841)
Interest charges				
Interest on long-term debt	19,482	21,847	81,038	87,991
Other interest expense	1,298	897	2,067	2,302
	20,780	22,744	83,105	90,293
Income before underlisted items	85,363	52,261	332,896	310,150
Income taxes (Note 4)	39,667	49,585	137,574	157,250
Income before non-controlling interest	45,696	2,676	195,322	152,900
Non-controlling interest	265	522	453	1,203
Net income from continuing operations	\$ 45,431	\$ 2,154	\$ 194,869	\$ 151,697
Net income (loss) from discontinued operations (Note 2)	\$ 100,394	\$ (6,673)	\$ 111,342	\$ 25,879
Net income (loss)	\$ 145,825	\$ (4,519)	\$ 306,211	\$ 177,576
Earnings per common share (Note 15)				
Basic from continuing operations	\$ 0.32	\$ -	\$ 1.35	\$ 1.02
Basic from discontinued operations	0.75	(0.05)	0.81	0.19
Basic	\$ 1.07	\$ (0.05)	\$ 2.16	\$ 1.21
Diluted from continuing operations	\$ 0.32	\$ -	\$ 1.35	\$ 1.02
Diluted from discontinued operations	0.74	(0.05)	0.81	0.19
Diluted	\$ 1.06	\$ (0.05)	\$ 2.16	\$ 1.21

See accompanying notes to the consolidated financial statements

ALIANT INC.
Consolidated statements of retained earnings
(Unaudited)
For the twelve months ended December 31

<i>(thousands of dollars)</i>	2003	2002
Retained earnings, beginning of period	\$ 354,080	\$ 317,988
Net income	306,211	177,576
Preferred share dividends	(9,538)	(9,538)
Common share dividends	(147,509)	(131,946)
Excess of repurchase of common shares over stated value (Note 12)	(87,378)	-
Retained earnings, end of period	\$ 415,866	\$ 354,080

See accompanying notes to the consolidated financial statements

ALIAN'T INC.
Consolidated statements of cash flows
(Unaudited)
For the period ended December 31

<i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002 (Note 2)	2003	2002 (Note 2)
Cash and cash equivalents from (used in) operations				
Net income from continuing operations	\$ 45,431	\$ 2,154	\$ 194,869	\$ 151,697
Add (deduct) non-cash items:				
Depreciation and amortization	95,712	96,951	390,597	385,604
Writedown of goodwill	-	50,000	-	50,000
Loss on disposal of assets	10,450	183	10,224	3,655
Future income taxes	35,240	23,559	(9,919)	6,359
Deferred pension costs	13,212	2,908	50,543	11,630
Non-controlling interest share of income	265	522	453	1,203
Other non-cash items	(908)	229	(817)	114
	<u>199,402</u>	<u>176,506</u>	<u>635,950</u>	<u>610,262</u>
Change in non-cash working capital balances related to operations	(21,181)	(9,578)	110,847	(38,518)
	<u>178,221</u>	<u>166,928</u>	<u>746,797</u>	<u>571,744</u>
Cash and cash equivalents from (used in) financing				
Repurchase of accounts receivable	-	-	(5,000)	(15,000)
Repayments of notes payable and bank advances	(39,754)	(39,715)	(28,764)	(52,010)
Proceeds from long-term debt	-	-	-	100,000
Repayments of long-term debt	(330)	(3,742)	(74,312)	(54,439)
Increase (decrease) in non-controlling interest	(27)	(46)	324	(1,812)
Proceeds from issue (repurchase) of common shares	(82,193)	(3,475)	(195,397)	10,398
Preferred share dividends	(2,385)	(2,385)	(9,538)	(9,538)
Common share dividends	(34,633)	(34,492)	(138,460)	(91,374)
	<u>(159,322)</u>	<u>(83,855)</u>	<u>(451,147)</u>	<u>(113,775)</u>
Cash and cash equivalents from (used in) investing				
Capital investments	(100,980)	(87,646)	(335,801)	(376,199)
Proceeds on sale of investments	586	3,660	3,924	13,560
Decrease (increase) in investments	(79)	18	(79)	(967)
Increase in deferred credits	(82,269)	(4,082)	(103,881)	(7,142)
	<u>(182,742)</u>	<u>(88,050)</u>	<u>(435,837)</u>	<u>(370,748)</u>
Cash and short-term investments from (used in) continuing operations	(163,843)	(4,977)	(140,187)	87,221
Cash and short-term investments from (used in) discontinued operations (Note 2)	316,727	(1,353)	327,305	(30,991)
Cash and short-term investments, beginning of period	212,446	184,542	178,212	121,982
Cash and short-term investments, end of period	\$ 365,330	\$ 178,212	\$ 365,330	\$ 178,212
Supplementary disclosure				
Interest paid	\$ 26,433	\$ 31,312	\$ 84,058	\$ 88,909
Income taxes paid	\$ 40,143	\$ 52,081	\$ 120,480	\$ 164,548

See accompanying notes to the consolidated financial statements

ALIAN T INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated financial statements

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

At December 31, 2003, the Company's principal subsidiaries and joint venture include: Aliant Telecom Inc., Innovatia Inc., Aliant ActiMedia, Aliant Information Technology Inc. and Xwave Solutions Inc.

The following entities have been classified as discontinued operations: AMI Offshore Inc., Prexar LLC, Aliant Energy Services Inc., 3618412 Canada Inc. ("SableCom"), and Stratos Global Corporation ("Stratos"), as discussed in Note 2.

Use of accounting estimates

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

Revenue Recognition

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

For transactions involving multiple elements, revenue is allocated based on relative fair values.

For arrangements in which subcontractors perform services for customers, revenue is recognized based on the amounts billed to the customers when the Company acts as the principal in the arrangement. When the Company acts as the subcontractor the net amount is recorded as revenue when the service is performed.

Payments received in advance are deferred until the service is provided or the product is delivered to customers.

Cash and short-term investments

Cash and short-term investments consist of cash on hand and balances with banks, and investments in money market instruments with original maturity of less than 90 days that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in fair value.

ALIAN T INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Inventory

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

Income taxes

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

Capital investments

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

Asset	Method	Rate
Buildings and towers	Straight-line	10-40 years
Telecommunications facilities and equipment	Straight-line	4-40 years
Application software and other equipment	Straight-line	3-15 years

Depreciation is not recorded on plant under construction that is not yet operational.

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

ALIAN T INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term investments

Portfolio investments are accounted for at cost. Declines in market value below cost are recognized when such declines are considered to be other than temporary. All portfolio investments held at December 31, 2002 were either sold or written down during 2003.

Deferred charges

Deferred charges include debt issue costs which are amortized on a straight-line basis over the term of the related debt, cellular dealer commissions and hardware subsidies which are amortized over the length of customer contracts, as well as Internet commissions which are amortized over a defined customer relationship period. Also included in deferred charges is the Company's retained interest in accounts receivable transferred to a securitization trust, as described in Note 3.

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 income in the period such review is performed.

Derivative financial instruments

Derivative financial instruments are used periodically by the Company in the management of its foreign currency and interest rate exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes.

The Company's policy is to formally designate each derivative financial instrument as a hedge of specific assets and liabilities on the balance sheet or to specific firm commitments. The Company believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term to maturity and the (notional) principal amount match the terms of the instrument or transaction being hedged.

Foreign exchange forward contracts may be used periodically by the Company to manage its exposure to fluctuations in currency exchange rates. Foreign exchange forward contracts are accounted for as hedges to the extent that they are designated as, and are effective as, hedges of firm foreign currency commitments. Gains and losses on foreign exchange forward contracts are recognized in income in the same period as gains and losses on the underlying hedged transactions are recognized.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments (continued)

The Company has entered into interest rate swap and swaption agreements in order to manage the interest rate exposure associated with certain long-term debt obligations. Amounts payable or receivable under interest rate swap agreements are recognized as adjustments to interest expense. In addition, premiums received or paid, if any, under interest rate swaption agreements are amortized as an adjustment to interest expense over the period from receipt, or payment, of the premium income to maturity of the underlying debt obligation.

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

Post employment benefits

The Company and its subsidiaries provide certain pension plans and other non-pension post employment benefits to qualified employees. These include contributory defined contribution pension plans, non-contributory defined benefit best average pension plans and other retirement benefits such as life insurance and health care plans. The defined benefit pension plans provide benefits based on the best 5-year average earnings for each year of service.

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

- (a) The cost of pensions and other post employment benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- (b) For the purpose of calculating the expected return on plan assets, those assets are valued at market-related value where investment returns (gains and losses) in excess of expected returns are recognized in the asset value over a period of 3 years.
- (c) Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.
- (d) The excess of the net actuarial gain (loss) over 10 per cent of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees being 13 years at December 31, 2003 (2002 – 16 years).
- (e) When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Post employment benefits (continued)

Discount rates for the employee benefit plans are selected in reference to current interest rates on long-term debt of high-quality corporate issuers. The expected long-term rate of return on plan assets is based on the mid-point range of long-term forecasts of capital market returns, given the Company's policy asset mix. Over the past 10 years, the weighted average rate of return for the Company's defined benefit pension plans was 8.7 per cent per annum.

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

Defined contribution plan costs are recognized as employees render services during the year.

Earnings per common share

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

Stock-based compensation plan

The Company has a stock-based compensation plan for executives and certain senior managers, which is described in Note 16. For stock-based compensation awards granted by the Company after January 1, 2003, the Company has changed its accounting policy to record compensation expense upon issuance of stock options to employees calculated using the fair value method. Compensation expense recognition commences when stock options are issued, with full recognition over the vesting period, being three years for the Company. The expense to be amortized over the vesting period is determined using the Black-Scholes model. This accounting change has been applied prospectively and resulted in an increase in expense of \$0.3 million and \$1.0 million respectively for the three and twelve months ended December 31, 2003.

As permitted under the CICA accounting standard for Stock-Based Compensation and Other Stock-Based Payments, the Company does not record compensation expense upon issuance of stock options to employees under its own stock option plan for awards granted prior to January 1, 2003. However, as required by the standard, the Company is disclosing the pro-forma net income (loss) and pro-forma earnings per share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in Note 15.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based compensation plan (continued)

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

Foreign currency translation

Effective July 1, 2002, the economic facts and circumstances surrounding the Company's foreign operations of Stratos changed such that operations that were previously classified as integrated were classified as self-sustaining. As a result, the translation method used was changed from the temporal to the current rate method. Stratos was sold in December 2003, with the results of its operations included in discontinued operations, as explained in Note 2.

At the date of change in translation methods, \$23.9 million in foreign exchange gains were realized, \$12.7 million net of non-controlling interest. Between July 1, 2002 and the effective date of sale on December 11, 2003, assets and liabilities of the Company's self-sustaining foreign operations were translated using the current rate method, at the exchange rates prevailing at the balance sheet date. Resulting unrealized gains or losses were deferred and included in shareholders' equity as a cumulative translation adjustment. Revenues and expenses were translated at the average exchange rate prevailing during the period.

NOTE 2. DISCONTINUED OPERATIONS

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

- April 2003 - the 29.3 per cent investment in iMagicTV Inc. was sold,
- May 2003 - the assets of Prexar LLC were sold,
- August 2003 - the 50 per cent investment in SableCom was sold,
- September 2003 - Aliant Energy Services Inc. was wound up, and
- August 2003 and December 2003 – the operating assets of AMI Offshore Inc. were sold.

The disposal of the subsidiaries in the former Emerging Business segment noted above netted an after-tax gain of \$14.5 million, which is included in the net income (loss) from discontinued operations.

ALIAN T INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 2. DISCONTINUED OPERATIONS (Continued)

In October 2003, the Company announced the pending sale of its Remote Communications segment as represented by its 53.2 per cent ownership in Stratos Global Corporation. Stratos had become increasingly independent of the Company and with its formidable market presence and strong operating capability was well positioned to successfully continue with its evolution and growth. On October 6, 2003, the Company sold 26,141,024 Subscription Receipts to a syndicate of underwriters led by RBC Capital Markets at a price of \$13.00 per receipt. Each Subscription Receipt entitled the holder to acquire one common share of Stratos upon receipt of approval by the U. S. Federal Communications Commission and delivery of a joint notice in writing from the Company and the Representative Underwriter confirming that the conditions of the release of escrow have been fulfilled to their satisfaction. Approval was received and conditions of the release of escrow were fulfilled in December 2003. Total gross proceeds received from the offering were \$339.8 million, with a gain on sale, net of taxes of \$90.1 million.

For reporting purposes, the results of operations of, AMI Offshore Inc., Prexar LLC, iMagicTV Inc., Aliant Energy Services Inc., SableCom, and Stratos Global Corporation have been presented as discontinued operations.

Accordingly, prior period financial statements, including segmented information as disclosed in Note 13, have been reclassified to reflect this change.

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

For the period ended December 31 <i>(thousands of dollars)</i>	Three Months		Twelve Months	
	2003	2002	2003	2002
Operating revenues	\$ 85,600	\$ 147,307	\$ 546,806	\$ 583,879
Operating expenses	72,508	140,500	479,158	533,693
Other income (expenses)	(11,921)	(9,436)	(21,958)	3,310
Gain on foreign exchange	-	-	-	23,944
Gain on disposal	110,965	-	121,131	-
Interest on long-term debt	2,804	7,108	19,689	36,171
Income tax (recovery)	9,507	(6,214)	23,050	(8,349)
Non-controlling interest	(569)	3,150	12,740	23,739
Net income (loss) from discontinued operations	\$ 100,394	\$ (6,673)	\$ 111,342	\$ 25,879

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 deferred charges. The Company remains exposed to certain risks of default on the amount of receivables under securitization. It has provided various credit enhancements in the form of overcollateralization and subordination of its retained interests. The purchaser and its investors have no recourse to the Company's other assets for failure of the obligator to pay the amounts when due.

ALIANTE INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 3. TRANSFER OF RECEIVABLES (Continued)

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 December 31, 2003, the Company had sold \$130.0 million (2002 - \$135.0 million) of accounts receivable and transferred \$158.7 million (2002 - \$164.9 million) of receivables to the trust. Included in deferred charges is the Company's retained interest of \$28.7 million (2002 - \$29.9 million), which has been determined using the following key assumptions underlying the transaction:

Cost of funds	3.16%
Weighted average maturity	41 days
Average credit loss	0.78%

The sensitivity of these assumptions to an immediate 10 to 20 per cent change is not material.

During the year ended December 31, 2003, the Company recognized a pre-tax loss of approximately \$4.5 million (2002 - \$3.7 million) on the transfer of receivables.

NOTE 4. INCOME TAXES

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

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

<i>(thousands of dollars)</i>	2003		2002	
Capital investments	\$	3,884	\$	(28,694)
Pension and post employment benefits		7,651		13,368
Deferred charges		(17,376)		(15,292)
Loss carryforwards		2,083		25,644
Other		12,852		14,832
Net future tax asset		9,094		9,858
Less: current portion of future tax liability		(3,797)		(6,953)
Future tax asset	\$	12,891	\$	16,811

ALIAN T INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 4. INCOME TAXES (Continued)

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

For the period ended December 31 <i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002	2003	2002
Current tax expense	\$ 5,565	\$ 44,148	\$ 147,493	\$ 154,539
Future income tax expense relating to origination and reversal of temporary differences	40,441	6,812	(3,879)	9,686
Future income tax benefit resulting from rate change	(6,339)	(1,375)	(6,040)	(6,975)
Income tax expense	\$ 39,667	\$ 49,585	\$ 137,574	\$ 157,250

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

For the period ended December 31	Three months		Twelve months	
	2003	2002	2003	2002
Statutory income tax rate (including surtax)	39.69 %	42.47 %	39.00 %	42.47 %
Federal large corporation tax	1.39	2.77	0.54	0.86
Tax rate change - future asset	(5.27)	(3.25)	(1.77)	(2.30)
Non taxable loss (gain)	(1.11)	4.16	(0.37)	1.67
Non deductible goodwill	0.05	49.28	0.05	6.61
Benefit of non-capital losses not recognized	3.59	3.15	1.27	0.42
Other permanent differences	8.13	(3.70)	2.61	0.97
Effective income tax rate	46.47 %	94.88 %	41.33 %	50.70 %

Tax Losses

The Company has accumulated \$6.5 million (2002 - \$85.2 million) in non-capital tax losses that are available to reduce taxable income in future years. These losses will expire after 2010 if not used.

To December 31, 2003, the tax benefit of the non-capital losses has been recognized as part of the future tax asset.

The Company also has capital losses of approximately \$34.6 million (2002 - \$2.0 million) available to be carried forward indefinitely to reduce capital gains in future years. No future tax asset associated with these losses has been recognized for financial reporting purposes.

ALIAN T INC.
Notes to the consolidated financial statements
(Unaudited)
December 31, 2003

NOTE 5. CAPITAL INVESTMENTS

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

2002			
<i>(thousands of dollars)</i>	Cost	Accumulated depreciation	Net book value
Land	\$ 13,981	\$ -	\$ 13,981
Buildings and towers	320,344	156,598	163,746
Telecommunications facilities and equipment	4,242,722	2,616,912	1,625,810
Application software and other equipment	600,317	359,246	241,071
Plant under construction	22,608	-	22,608
Materials and supplies	9,254	-	9,254
	\$ 5,209,226	\$ 3,132,756	\$ 2,076,470

NOTE 6. ACCRUED BENEFIT ASSET (LIABILITY)

The Company and its subsidiaries provide certain pension plans and other non-pension post employment benefits to qualified employees. These include contributory defined contribution (DC) pension plans, non-contributory defined benefit (DB) best average pension plans and other retirement benefits such as life insurance and health care plans.

DC pension plans

The DC pension plans require Company contributions between 4 per cent and 6 per cent and employee contributions between 1 per cent and 6 per cent of a member-employee's pensionable earnings. The total expense for the DC pension plans is equal to the Company's required contributions and was \$2.3 million and \$9.0 million for three and twelve months ended December 31, 2003, respectively (2002 - \$2.0 million and \$8.0 million, respectively).

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NOTE 6. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

DB pension plans

The DB pension plans provide a pension to employees that reach 65 years of age at retirement with at least 2 years of service. This pension is equal to between 1 per cent and 1.5 per cent of the employee's best 5-year average earnings for each year of service. Also, for employees that retire before age 65 but meet other age plus service requirements either a reduced or unreduced pension may be payable. Pensions paid are subject to annual indexing with the Consumer Price Index up to a maximum of 2 per cent per year.

The measurement of the accrued benefit obligation (ABO) and annual expense for the DB pension plans requires actuarial calculations and several assumptions. These assumptions and the sensitivity of the ABO and pension expense to changes in the rates by 0.25 per cent in these assumptions are as follows:

<i>(thousands of dollars, rounded)</i>	2003	2002	Impact of 0.25% change in rate on	
			ABO	Expense
Discount rate	6.75%	6.75%	\$ 52,000	\$ 1,000
Expected return on plan assets	7.50%	7.50%	\$ -	\$ 3,000
Rate of compensation increase	3.50%	3.00%	\$ 8,000	\$ 1,000

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

The assets of the DB pension plans are invested together in a Master Trust that maintains the following asset mix. The Company has based its expected return on plan assets on the expected long-term returns for each asset class and their relative target weighting in the asset mix.

Asset Category	Target Weight	Percentage of Plan Assets		Weighted Average Expected Long-term Rate of Return
		2003	2002	
Bonds / fixed income securities	35 - 45%	40%	41%	2.4%
Equity securities	55 - 65%	60%	59%	5.1%
Total				7.5%

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NOTE 6. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

The Master Trust does not directly own common shares or debt obligations of the Company or its subsidiaries. The Master Trust does own units of index funds that may hold shares of the Company or debt instruments of its subsidiaries by virtue of the fact that these securities are included in the relevant indices. Equity securities do include BCE Inc. common shares of approximately \$7.1 million (less than 1 per cent of total plan assets) and \$7.6 million (less than 1 per cent of total plan assets) at December 31, 2003, and 2002, respectively. Debt securities include Bell Canada debentures of approximately \$6.7 million (less than 1 per cent of total plan assets) and \$6.6 million (less than 1 per cent of total plan assets) at December 31, 2003, and 2002. The total value of all securities of the Company and related issuers held directly or indirectly in the Master Trust at December 31, 2003 was approximately \$15.0 million (1.2 per cent of plan assets) and at December 31, 2002 was approximately \$15.5 million (1.4 per cent of plan assets).

The maturities of debt securities at December 31, 2003, range from 0 to 39 years with a weighted-average maturity of 5.4 years. The maturities of debt securities at December 31, 2002, range from 0 to 31 years with a weighted-average maturity of 5.7 years.

Other post-employment benefit plans

Other post-employment benefit plans (OPEBs) provide certain health care coverage and life insurance to employees that would qualify for retirement as that is determined under the DB pension plans. OPEBs are not funded by contributions to a trust and therefore the Company pays the benefits under the plans directly.

The measurement of the ABO and annual expense for OPEBs requires actuarial calculations and several assumptions. The significant assumptions used are as follows:

	2003	2002
Discount rate	6.75%	6.75%
Growth rate of per capita health care costs first 5 years	8.00%	8.00%
Growth rate of per capita health care costs thereafter	4.50%	4.50%

The ABO and annual expense related to OPEBs is sensitive to these assumptions. For example, the ABO would increase approximately \$6 million and annual expense would increase by less than \$1 million with a 0.25 per cent decrease in the assumed discount rate. A 1 per cent increase in the assumed growth trend of health care costs would increase the ABO by \$26 million and increase annual expense by \$3 million. Conversely, a 1 per cent decrease in the assumed growth trend of health care costs would reduce the ABO by \$22 million and reduce annual OPEBs expense by \$2 million.

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NOTE 6. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

Components of Accrued Benefit Asset (Liability)

The table below shows the change in benefit obligations, change in fair value of plan assets and the funded status of the plans.

<i>(thousands of dollars)</i>	DB pension plans		OPEBs	
	2003	2002	2003	2002
Accrued benefit obligation, beginning of year	\$ 1,379,459	\$ 1,268,542	\$ 159,681	\$ 138,885
Current service cost	24,753	26,649	4,431	3,274
Interest cost	93,893	87,218	10,189	9,665
Actuarial (gains) losses	83,413	68,277	(8,914)	11,134
Benefits paid	(85,063)	(71,227)	(4,011)	(3,277)
Accrued benefit obligation, end of year	\$ 1,496,455	\$ 1,379,459	\$ 161,376	\$ 159,681
Fair value of plan assets, beginning of year	\$ 1,081,830	\$ 1,208,540	\$ -	\$ -
Actual return on plan assets	140,986	(64,458)	-	-
Benefits paid	(85,063)	(71,227)	(4,011)	(3,277)
Employer contribution	124,689	8,975	4,011	3,277
Fair value of plan assets, end of year	\$ 1,262,442	\$ 1,081,830	\$ -	\$ -
Funded status	\$ (234,013)	\$ (297,629)	\$ (161,376)	\$ (159,681)
Unamortized net actuarial losses	397,453	372,303	2,220	11,134
Accrued benefit asset (liability), end of year	\$ 163,440	\$ 74,674	\$ (159,156)	\$ (148,547)

The accrued benefit obligation and fair value of plan assets for the pension benefit plans with an accrued benefit obligation in excess of plan assets were \$1,496.5 million and \$1,262.4 million, respectively, as of December 31, 2003, and \$1,379.5 million and \$1,081.8 million, respectively, as of December 31, 2002.

While the plans are not considered fully funded for financial reporting purposes, registered plans are funded in accordance with the applicable statutory funding rules and regulations governing the particular plans.

Components of net benefit plans expense (credit)

The tables below shows the components of the net benefit plans expense (credit).

DB pension plans

<i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002	2003	2002
For the period ended December 31				
Current service cost	\$ 6,188	\$ 6,662	\$ 24,753	\$ 26,649
Interest cost	23,473	21,805	93,893	87,218
Expected return on plan assets	(22,913)	(28,794)	(91,650)	(115,176)
Amortization of net actuarial losses	2,638	-	8,927	-
Net benefit plans expense (credit)	\$ 9,386	\$ (327)	\$ 35,923	\$ (1,309)

ALIAN T INC.
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NOTE 6. ACCRUED BENEFIT ASSET (LIABILITY) (Continued)

The net DB pension benefit expense adjusted to include all actuarial gains and losses and to exclude the amortization or other recognition of existing unamortized amounts was \$61.1 million for the twelve months ended December 31, 2003, (2002 - \$185.1 million)

OPEBs

For the period ended December 31 <i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002	2003	2002
Current service cost	\$ 1,108	\$ 819	\$ 4,431	\$ 3,274
Interest cost	2,717	2,416	10,189	9,665
Net benefit plans expense	\$ 3,825	\$ 3,235	\$ 14,620	\$ 12,939

The net OPEBs benefit expense adjusted to include all actuarial gains and losses and to exclude the amortization or other recognition of existing unamortized amounts was \$5.7 million for the twelve months ended December 31, 2003 (2002 - \$24.1 million).

NOTE 7. GOODWILL

<i>(thousands of dollars)</i>	2003		2002	
Goodwill, at cost	\$	87,616	\$	87,616
Cumulative impairment provision (Note1)		(50,000)		(50,000)
Accumulated amortization		(5,812)		(5,812)
	\$	31,804	\$	31,804

In 2002, due to market conditions in the Information Technology sector and the weak financial performance of the Company's subsidiary, Xwave Solutions Inc., the Company recognized a \$50.0 million goodwill writedown associated with its investment in Xwave Solutions Inc.

All goodwill relates to the Information Technology segment.

NOTE 8. NOTES PAYABLE AND BANK ADVANCES

At December 31, 2003 the Company has \$nil (2002 - \$nil million) outstanding under its commercial paper program. The Company has lines of credit available of \$557.0 million (2002 - \$660.0 million). These lines consist of \$350.0 million (2002 - \$300.0 million) in committed lines supporting the Company's commercial paper program, \$nil million (2002 - \$125.0 million) in committed lines supporting a Stratos Global Corporation loan guarantee, \$150.0 million (2002 - \$110.0 million) in uncommitted operating lines, and \$57.0 million (2002 - \$125.0 million) in operating lines of credit within certain of the Company's subsidiaries.

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NOTE 9. RESTRUCTURING CHARGE

During 2001, the Company commenced a significant organizational restructuring which resulted in a charge of \$111.2 million against earnings. The action taken in 2001 to effect the restructuring was an acceleration of long term plans for continued efforts to realize cost savings and efficiencies resulting from the consolidation and integration of its operations.

Costs associated with workforce reduction and operational integration continue to be charged against the restructuring provision recorded at December 31, 2001. These costs include severance, pension costs and benefits as well as costs to consolidate systems and services, downsize business units, terminate contracts and streamline management and administration functions. As at December 31, 2003, the balance of this restructuring provision included in payables and accruals totalled \$1.0 million (2002 - \$10.0 million). The remaining provision will be drawn down in 2004.

During the second half of 2003, the Company executed a comprehensive restructuring plan of xwave's operations, which resulted in a charge of \$14.5 million against earnings. The objective of the plan is to restore profitability, improve productivity, realign xwave's strategy, and simplify its business model.

Costs associated with the restructuring plan, the majority of which are severance and related benefits, but also include equipment lease cancellation penalties and real estate rationalization costs, are being charged against this provision. As at December 31, 2003, the balance of this restructuring provision included in payables and accruals totalled \$6.2 million. The remaining provision will be drawn down during 2004.

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NOTE 10. LONG-TERM DEBT

<i>(thousands of dollars)</i>	Interest rate	Maturity	2003	2002
<i>Telecommunications</i>				
Notes				
Aliant Telecom Inc.				
Series 1	6.46%	2004	\$ 100,000	\$ 100,000
Series 2	6.65%	2009	100,000	100,000
Series 3	6.70%	2005	150,000	150,000
Series 4	6.80%	2011	150,000	150,000
Series 5	5.35%	2007	100,000	100,000
			\$ 600,000	\$ 600,000
Bonds				
Maritime Tel & Tel Limited				
AD	10.45%	2013	\$ 50,000	\$ 50,000
Island Telecom Inc.				
S	11.45%	2008	-	7,500
T	10.60%	2009	3,500	3,500
U	11.15%	2010	6,500	6,500
V	9.77%	2018	5,000	5,000
W	8.76%	2019	5,000	5,000
NewTel Communications Inc				
T	10.75%	2014	75,000	75,000
V	11.40%	2010	40,000	40,000
			\$ 185,000	\$ 192,500
Debentures				
Maritime Tel & Tel Limited				
Series 2	8.30%	2019	\$ 50,000	\$ 50,000
Series 4	9.70%	2019	50,000	50,000
Series 5	9.05%	2025	60,000	60,000
NBTel Inc.				
AI	6.40%	2003	-	65,000
AA	11.13%	2013	40,000	40,000
			\$ 200,000	\$ 265,000
Other				
			\$ -	\$ 2,000
			\$ 985,000	\$ 1,059,500
Present value of obligations under capital leases			4,746	3,526
Total - Telecommunications			\$ 989,746	\$ 1,063,026
<i>Information Technology</i>				
Mortgages and Other		2004	\$ 313	\$ 917
Present value of obligations under capital leases			-	429
Total - Information Technology			\$ 313	\$ 1,346
Total long-term debt			\$ 990,059	\$ 1,064,372
Less: Portion due within one year			101,535	68,724
			\$ 888,524	\$ 995,648

ALIAN T INC.
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NOTE 10. LONG-TERM DEBT (Continued)

Telecommunications:

On June 16, 2003, a \$65.0 million 6.40 per cent Debenture NB Tel Series AI matured.

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

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

All Debentures and Notes are issued in series and certain series are redeemable at the option of the Company prior to maturity at the prices, times and conditions specified in each series. The Debentures and Notes are issued under trust indentures and are unsecured.

All mortgages are secured by a fixed charge against specific assets of the Company.

The aggregate amount of payments required in each of the next five years to meet principal repayments and maturities of the Company's long term debt and the future minimum lease payments under capital leases presently outstanding is as follows: 2004 - \$101.5 million; 2005 - \$151.7 million; 2006 - \$1.9 million; 2007 - \$100.0 million; 2008 - \$nil million; and thereafter \$635.0 million.

NOTE 11. NON-CONTROLLING INTEREST

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

<i>(thousands of dollars)</i>	2003		2002	
TechKnowledge Inc.	\$	583	\$	839
Atlantic Mobility Products Ltd.		3,468		2,435
	\$	4,051	\$	3,274

NOTE 12. CAPITAL STOCK

Authorized

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

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NOTE 12. CAPITAL STOCK (Continued)

Unlimited number of common shares, without par value.

Issued

	2003		2002	
	Number of shares	Value	Number of shares	Value
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares	133,616,920	1,035,798	139,513,639	1,070,551
		\$ 1,208,062		\$ 1,242,815

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

	2003		2002	
	Number of shares	Value	Number of shares	Value
Common shares, beginning of year	139,513,639	\$ 1,070,551	137,526,147	\$ 1,014,416
Stock option plan (Note 16)	434,132	8,629	437,018	7,369
Common shareholder dividend reinvestment and stock purchase plan	197,719	5,927	1,373,235	38,335
Employees' stock savings plan (Note 16)	-	-	441,539	12,452
Shares purchased for cancellation	(6,528,570)	(49,309)	(264,300)	(2,021)
Common shares, end of year	133,616,920	\$ 1,035,798	139,513,639	\$ 1,070,551

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 year ended December 31, 2003, 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 \$9.0 million (2002 - \$41.5 million).

On July 18, 2002, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 1,600,000 of its outstanding common shares on the Toronto Stock Exchange, representing approximately 1.1 per cent of the issued and outstanding common shares of Aliant Inc. as of that date, being 139,567,382 common shares. Under the bid, the Company would acquire, from time to time, its common shares at the market price with cash through the facilities of the Toronto Stock Exchange. Purchases of common shares could be made during the 12-month period commencing July 22, 2002 and ending on July 21, 2003. Aliant Inc. purchased and cancelled all of the 1,600,000 shares as of June 2003, of which 1,335,700 shares were in 2003.

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NOTE 12. CAPITAL STOCK (Continued)

On July 30, 2003, Aliant Inc. announced acceptance by the Toronto Stock Exchange of Notice of intention to purchase from time to time up to 6,925,000 of its outstanding common shares on the Toronto Stock Exchange, representing approximately 5.0 per cent of the issued and outstanding common shares of Aliant Inc. as of that date, being 138,517,283 common shares. Under the bid, the Company would acquire, from time to time, its common shares at the market price with cash through the facilities of the Toronto Stock Exchange. Bell Canada, Aliant's majority shareholder, will sell shares into the normal course issuer bid on a pro-rata basis and the Toronto Stock Exchange has granted an exemption to permit Aliant to make purchases from Bell Canada on that basis. Purchases of common shares may be made during the 12-month period commencing August 6, 2003 and ending on August 5, 2004. As of December 31, 2003, 5,192,870 shares were purchased for cancellation.

For the twelve months ended, December 31, 2003, the Company purchased for cancellation 6,528,570 shares (2002 - 264,300) for an aggregate price of \$200.9 million (2002 - \$7.2 million) which reduced capital stock by \$49.3 million (2002 - \$2.0 million), contributed surplus by \$64.2 million (2002 - \$5.2 million) and retained earnings by \$87.4 million (2002 - \$nil million).

NOTE 13. SEGMENTED INFORMATION

The Company operates through two reportable segments:

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

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

These reportable segments 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 1. 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.

The Remote Communications and Emerging Business segments were divested of during 2003 and are included in discontinued operations as discussed in Note 2.

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NOTE 13. SEGMENTED INFORMATION (Continued)

For the three month period ended December 31, 2003

<i>(thousands of dollars)</i>	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 464,551	\$ 63,859	\$ 213	\$ -	\$ 528,623
Intersegment revenue	861	25,122	-	(25,983)	-
Operating revenues	465,412	88,981	213	(25,983)	528,623
Operating expenses	246,563	86,145	8,582	(23,357)	317,933
Depreciation and amortization	93,420	2,964	239	(911)	95,712
Restructuring charge	-	(950)	-	-	(950)
Writedown of goodwill	-	-	-	-	-
Other income (expenses)	93	497	477,255	(487,630)	(9,785)
Interest charges	19,796	414	2,097	(1,527)	20,780
Income taxes (recovery)	42,927	610	6,532	(10,402)	39,667
Non-controlling interest	361	(96)	-	-	265
Net income (loss) from continuing operations	\$ 62,438	\$ 391	\$ 460,018	\$ (477,416)	\$ 45,431
Net income from discontinued operations	\$ 3,680	\$ -	\$ 96,714	\$ -	\$ 100,394
Net income (loss)	\$ 66,118	\$ 391	\$ 556,732	\$ (477,416)	\$ 145,825
Total assets	\$ 2,922,234	\$ 160,909	\$ 1,970,450	\$ (1,987,300)	\$ 3,066,293
Capital investments	\$ 98,612	\$ 2,118	\$ 250	\$ -	\$ 100,980

For the three month period ended December 31, 2002

<i>(thousands of dollars)</i>	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 457,448	\$ 55,093	\$ 681	\$ -	\$ 513,222
Intersegment revenue	6,897	35,884	47	(42,828)	-
Operating revenues	464,345	90,977	728	(42,828)	513,222
Operating expenses	239,464	94,065	6,914	(44,641)	295,802
Depreciation and amortization	92,842	3,674	435	-	96,951
Restructuring charge	-	-	-	-	-
Writedown of goodwill	-	(50,000)	-	-	(50,000)
Other income (expenses)	3,106	25,262	216,291	(240,123)	4,536
Interest charges	21,353	1,398	1,356	(1,363)	22,744
Income taxes (recovery)	47,786	(3,643)	6,767	(1,325)	49,585
Non-controlling interest	539	24	(41)	-	522
Net income (loss) from continuing operations	\$ 65,467	\$ (29,279)	\$ 201,588	\$ (235,622)	\$ 2,154
Net loss from discontinued operations	\$ (169)	\$ -	\$ (6,504)	\$ -	\$ (6,673)
Net income (loss)	\$ 65,298	\$ (29,279)	\$ 195,084	\$ (235,622)	\$ (4,519)
Total assets	\$ 2,768,867	\$ 197,219	\$ 2,029,920	\$ (1,254,284)	\$ 3,741,722
Capital investments	\$ 85,796	\$ 1,326	\$ 524	\$ -	\$ 87,646

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NOTE 13. SEGMENTED INFORMATION (Continued)

For the year ended December 31, 2003

<i>(thousands of dollars)</i>	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,809,471	\$ 258,797	\$ 1,121	\$ -	\$ 2,069,389
Intersegment revenue	10,334	107,174	-	(117,508)	-
Operating revenues	1,819,805	365,971	1,121	(117,508)	2,069,389
Operating expenses	973,048	358,836	25,172	(117,018)	1,240,038
Depreciation and amortization	381,310	11,755	1,070	(3,538)	390,597
Restructuring charge	-	14,550	-	-	14,550
Writedown of goodwill	-	-	-	-	-
Other income (expenses)	1,797	1,624	484,444	(496,068)	(8,203)
Interest charges	81,771	2,151	8,434	(9,251)	83,105
Income taxes (recovery)	153,772	(7,381)	926	(9,743)	137,574
Non-controlling interest	568	(115)	-	-	453
Net income (loss) from continuing operations	\$ 231,133	\$ (12,201)	\$ 449,963	\$ (474,026)	\$ 194,869
Net income from discontinued operations	\$ 1,246	\$ -	\$ 110,096	\$ -	\$ 111,342
Net income (loss)	\$ 232,379	\$ (12,201)	\$ 560,059	\$ (474,026)	\$ 306,211
Total assets	\$ 2,922,234	\$ 160,909	\$ 1,970,450	\$ (1,987,300)	\$ 3,066,293
Capital investments	\$ 330,680	\$ 3,445	\$ 1,676	\$ -	\$ 335,801

For the year ended December 31, 2002

<i>(thousands of dollars)</i>	Telecom- munications	Information Technology	All others	Eliminations	Consolidated
Revenue from external customers	\$ 1,789,998	\$ 253,561	\$ 2,915	\$ -	\$ 2,046,474
Intersegment revenue	19,045	145,777	317	(165,139)	-
Operating revenues	1,809,043	399,338	3,232	(165,139)	2,046,474
Operating expenses	952,127	396,470	23,454	(161,465)	1,210,586
Depreciation and amortization	371,832	12,716	1,056	-	385,604
Restructuring charge	-	-	-	-	-
Writedown of goodwill	-	(50,000)	-	-	(50,000)
Other income (expenses)	340	25,710	253,537	(279,428)	159
Interest charges	87,889	2,635	5,194	(5,425)	90,293
Income taxes (recovery)	160,820	(4,468)	8,073	(7,175)	157,250
Non-controlling interest	1,355	13	(164)	(1)	1,203
Net income (loss) from continuing operations	\$ 235,360	\$ (32,318)	\$ 219,156	\$ (270,501)	\$ 151,697
Net income (loss) from discontinued operations	\$ (676)	\$ -	\$ 26,555	\$ -	\$ 25,879
Net income (loss)	\$ 234,684	\$ (32,318)	\$ 245,711	\$ (270,501)	\$ 177,576
Total assets	\$ 2,768,867	\$ 197,219	\$ 2,029,920	\$ (1,254,284)	\$ 3,741,722
Capital investments	\$ 368,768	\$ 6,125	\$ 1,306	\$ -	\$ 376,199

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NOTE 13. SEGMENTED INFORMATION (CONTINUED)

Revenue from external customers by product and service:

For the period ended December 31 <i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002	2003	2002
Telecommunications				
Local	\$ 183,621	\$ 189,241	\$ 750,083	\$ 767,040
Long distance	96,680	93,999	383,969	384,844
Wireless	89,646	77,192	332,518	281,321
Other telecommunications	94,604	97,016	342,901	356,793
	<u>464,551</u>	<u>457,448</u>	<u>1,809,471</u>	<u>1,789,998</u>
Information Technology				
Products	32,497	27,870	132,125	140,749
Services	31,362	27,223	126,672	112,812
	<u>63,859</u>	<u>55,093</u>	<u>258,797</u>	<u>253,561</u>
Other	213	681	1,121	2,915
	<u>\$ 528,623</u>	<u>\$ 513,222</u>	<u>\$ 2,069,389</u>	<u>\$ 2,046,474</u>

NOTE 14. OTHER INCOME (EXPENSES)

For the period ended December 31 <i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002	2003	2002
Writedown of goodwill	\$ -	\$ (50,000)	\$ -	\$ (50,000)
Writedown of portfolio investments and related assets	(13,315)	-	(13,315)	(5,598)
Gain on sale of investments	-	-	-	2,400
Miscellaneous income	3,530	4,536	5,112	3,357
	<u>\$ (9,785)</u>	<u>\$ (45,464)</u>	<u>\$ (8,203)</u>	<u>\$ (49,841)</u>

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NOTE 15. EARNINGS PER COMMON SHARE

For the period ended December 31	Three months		Twelve months	
<i>(thousands of dollars except per share amounts)</i>	2003	2002	2003	2002
Net income applicable to common shares:				
Net income from continuing operations	\$ 45,431	\$ 2,154	\$ 194,869	\$ 151,697
Preferred share dividends	(2,385)	(2,385)	(9,538)	(9,538)
Net income (loss) applicable to common shares from continuing operations	\$ 43,046	\$ (231)	\$ 185,331	\$ 142,159
Net income (loss) from discontinued operations	100,394	(6,673)	111,342	25,879
Net income (loss) applicable to common shares	\$ 143,440	\$ (6,904)	\$ 296,673	\$ 168,038
Basic:				
Average number of common shares outstanding	134,667	139,547	137,581	138,907
Basic earnings per common share from continuing operations	\$ 0.32	\$ -	\$ 1.35	\$ 1.02
Basic earnings per common share from discontinued operations	0.75	(0.05)	0.81	0.19
Basic earnings per share	\$ 1.07	\$ (0.05)	\$ 2.16	\$ 1.21
Diluted:				
Average number of common shares outstanding	134,667	139,547	137,581	138,907
Impact of outstanding stock options	142	-	-	-
	134,809	139,547	137,581	138,907
Diluted earnings per common share from continuing operations	\$ 0.32	\$ -	\$ 1.35	\$ 1.02
Diluted earnings per common share from discontinued operations	0.74	(0.05)	0.81	0.19
Diluted earnings per share	\$ 1.06	\$ (0.05)	\$ 2.16	\$ 1.21

Common shares issuable under the terms of the Company's stock option plans have not been included in the calculation of diluted earnings per share for the twelve months ended December 31, 2002 and 2003 and three months ended December 31, 2002 as their effect is anti-dilutive.

The following table presents pro-forma net income (loss), 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, excluding those granted in 2003 for which compensation was recorded as described in Note 1.

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NOTE 15. EARNINGS PER COMMON SHARE (Continued)

For the period ended December 31	Three months		Twelve months	
<i>(thousands of dollars except per share amounts)</i>	2003	2002	2003	2002
Pro-forma net income (loss) applicable to common shares:				
Net income from continuing operations	\$ 45,431	\$ 2,154	\$ 194,869	\$ 151,697
Pro-forma adjustments	(264)	(430)	(1,255)	(2,259)
Pro-forma net income from continuing operations	\$ 45,167	\$ 1,724	\$ 193,614	\$ 149,438
Preferred share dividends	(2,385)	(2,385)	(9,538)	(9,538)
Pro-forma net income (loss) applicable to common shares from continuing operations	\$ 42,782	\$ (661)	\$ 184,076	\$ 139,900
Pro-forma net income (loss) applicable to common shares from discontinued operations	\$ 100,394	\$ (6,673)	\$ 111,342	\$ 25,879
Pro-forma net income (loss) applicable to common shares	\$ 143,176	\$ (7,334)	\$ 295,418	\$ 165,779
Basic:				
Average number of common shares outstanding	134,667	139,547	137,581	138,907
Pro-forma earnings per common share from continuing operations	\$ 0.32	\$ -	\$ 1.34	\$ 1.00
Pro-forma earnings per common shares from discontinued operations	\$ 0.75	\$ (0.05)	\$ 0.81	\$ 0.19
Pro-forma earnings per common share	\$ 1.07	\$ (0.05)	\$ 2.15	\$ 1.19
Diluted:				
Average number of common shares outstanding	134,667	139,547	137,581	138,907
Impact of outstanding stock options	142	-	-	-
	134,809	139,547	137,581	138,907
Pro-forma earnings per common share from continuing operations	\$ 0.32	\$ -	\$ 1.34	\$ 1.00
Pro-forma earnings per common shares from discontinued operations	\$ 0.74	\$ (0.05)	\$ 0.81	\$ 0.19
Pro-forma earnings per common share	\$ 1.06	\$ (0.05)	\$ 2.15	\$ 1.19

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

December 31	2003	2002
Dividend yield	3.76%	3.41%
Expected volatility	22.80%	25.30%
Risk-free interest rate	4.49%	4.33%
Expected lives	5.9 years	6.9 years

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NOTE 16. STOCK-BASED COMPENSATION PLANS

At December 31, 2003 the Company has the following stock-based compensation plans.

Stock Option Plan

Under the stock option plan, the Company may grant options to plan members for up to 7,361,746 shares of common stock, of which 2,338,367 options for the same number of common shares were outstanding as at December 31, 2003, (2002 – 2,680,450). The exercise price of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. Options vest evenly over three years from the date they are granted under the plan.

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

	2003		2002	
	Number of shares	Weighted-average exercise price	Number of shares	Weighted-average exercise price
Options outstanding at beginning of period	2,680,450	\$ 28.94	2,558,275	\$ 26.67
Granted	289,138	\$ 26.84	633,049	\$ 29.05
Forfeited	(197,089)	\$ 32.59	(73,856)	\$ 25.48
Exercised	(434,132)	\$ 19.88	(437,018)	\$ 16.86
Options outstanding at end of period	2,338,367	\$ 30.06	2,680,450	\$ 28.94
Options exercisable at end of period	1,595,257	\$ 30.48	1,668,501	\$ 27.61

The following table summarizes information about stock options outstanding at December 31, 2003:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted-average remaining contractual life in years	Weighted-average exercise price	Number exercisable	Weighted-average exercise price
\$11.746 to \$15.718	84,959	2.9	\$14.22	84,959	\$14.22
\$17.557 to \$20.079	96,926	4.1	\$19.93	96,926	\$19.93
\$21.768 to \$25.552	168,220	5.0	\$23.03	168,220	\$23.03
\$27.950 to \$34.900	1,507,426	7.9	\$30.67	876,309	\$32.56
\$35.250 to \$38.100	480,836	7.1	\$35.42	368,843	\$35.43
	2,338,367		\$30.06	1,595,257	\$30.48

The Company expects that approximately 95 per cent of the non-vested awards at December 31, 2003 will eventually vest.

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

NOTE 16. STOCK-BASED COMPENSATION PLANS (Continued)

Employees' Stock Savings Plan

Under the employees' stock savings plan, the Company is authorized to issue up to 3,500,000 shares of common stock to its full-time employees, nearly all of 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 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. Participants purchase additional common shares in lieu of receiving corporate dividends in the form of cash. Over 80 per cent of eligible employees are participating in the plan.

NOTE 17. FINANCIAL INSTRUMENTS

Risk Management

Periodically, the Company uses interest rate swaps, and swaptions, forward contracts, forward rate agreements and interest rate caps to manage its interest rate positions associated with its debt instruments. The terms of these derivative contracts generally match the terms associated with the underlying debt instruments. These contracts are generally used to reduce financing costs and to diversify the Company's access to capital markets.

Credit risk

The Company is exposed to credit risk with respect to accounts receivable from customers. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis.

The Company has entered into a transfer of receivables as described in Note 1 and Note 3. The Company remains exposed to certain risks of default on the amount of receivables under securitization.

Currency exposures

The Company has no principal amounts outstanding under cross-currency contracts.

Interest rate exposures

The Company's long-term debt consists of both floating and fixed interest rate financing, and is therefore subject to risks associated with fluctuating interest rates.

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NOTE 17. FINANCIAL INSTRUMENTS (Continued)

Interest rate exposures (continued)

A subsidiary of the Company has entered into, for hedging purposes, an interest rate swap transaction with a Canadian chartered bank. The swap transaction expires on May 11, 2011. The swap transaction involves the exchange of the underlying fixed interest rate of 6.80 per cent per annum for a three-month Bankers' Acceptance floating interest rate plus 2.06 per cent. The notional amount of the swap transaction at December 31, 2003 was \$100.0 million (2002 - nil).

A subsidiary of the Company has also entered into two swaption transactions related to two outstanding issues of long-term debt. The swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with the subsidiary on the call dates of the two underlying debt instruments. If exercised, these swaptions will involve the payment by the subsidiary of the underlying fixed interest rates on the debt instruments of 10.45 per cent and 11.125 per cent respectively in exchange for receiving the three-month Bankers' Acceptance floating rate from the call dates in 2006 until maturity in 2013. In exchange for providing the counterparty with these options, the subsidiary received payments from the counterparty totalling \$13.0 million in 2001 and 1997. This premium income is being amortized against interest expense over the period to maturity of the underlying debt issues. The total notional amount of the swaption transactions at December 31, 2003 was \$90.0 million (2002 - \$90.0 million).

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties, based on current markets for instruments of the same risk, principal and remaining maturities. Fair values are based on estimates using present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Potential income taxes and other expenses that would be incurred on disposition of these financial instruments have not been reflected in the fair values. Therefore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

At December 31, 2003 and 2002, the carrying value of all financial instruments approximates fair value with the exception of long-term debt and related derivative financial instruments that are treated as hedges. The fair value of the Company's long-term debt has been estimated to be \$1,173.6 million (2002 - \$1,239.9 million) with a carrying value of \$990.1 million (2002 - \$1,064.4 million). The fair value of derivative financial instruments at December 31, 2003 has been estimated to be an obligation of \$24.7 million (2002 - \$25.0 million).

NOTE 18. COMMITMENTS

The estimated future minimum lease payments under operating leases and purchase commitments for the next five years are as follows: 2004 - \$84.9 million; 2005 - \$64.8 million; 2006 - \$44.9 million; 2007 - \$38.2 million; 2008 - \$33.8 million; and thereafter \$178.6 million.

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NOTE 19. RELATED PARTY TRANSACTIONS

Bell Canada beneficially owns and controls 53.50 per cent (2002 – 53.12 per cent) of the outstanding common shares of the Company as at December 31, 2003.

In the normal course of business, the Company had transactions with related parties as follows:

Related party <i>(thousands of dollars)</i>	Nature of transaction	2003		2002	
Controlled investees of Bell Canada	Purchases of telecommunications and other services	\$	97,046	\$	80,089
	Telecommunications revenue	\$	69,380	\$	38,597
	Purchases of capital investments	\$	3,277	\$	5,942

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The balances due to and due from affiliates are non-interest bearing and under normal credit terms and have arisen from the sales of products and provision of services referred to above.

At December 31, 2003, accounts receivable included \$13.8 million (2002 - \$4.2 million) due from related parties. Payables and accruals included \$8.6 million (2002 - \$6.0 million) due to related parties.

NOTE 20. JOINT VENTURES

The Company and a subsidiary hold an 87.14 per cent partnership interest in the joint venture Aliant ActiMedia.

The effect of proportionate consolidation of the joint venture on the Company's consolidated financial statements is summarized below:

For the period ended December 31 <i>(thousands of dollars)</i>	Three months		Twelve months	
	2003	2002	2003	2002
Consolidated statements of income				
Operating revenues	\$ 8,136	\$ 7,921	\$ 46,330	\$ 44,513
Expenses	3,830	3,326	17,520	16,523
Operating income	\$ 4,306	\$ 4,595	\$ 28,810	\$ 27,990
Consolidated balance sheets				
Current assets	\$ 31,697	\$ 31,119	\$ 31,697	\$ 31,119
Long-term assets	288	311	288	311
Current liabilities	5,193	3,957	5,193	3,957
Net investment	\$ 26,792	\$ 27,473	\$ 26,792	\$ 27,473
Consolidated statements of cash flows				
Operating activities	\$ 374	\$ (1,157)	\$ 666	\$ (631)
Investing activities	(87)	1	(89)	(88)
Net cash flow	\$ 287	\$ (1,156)	\$ 577	\$ (719)

NOTE 21. CONTINGENCIES

- (a) An action has been commenced against the Company by 132 former employees who took early retirement under the 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998, and what they would have received had they retired under the 1999 early retirement incentive program. The outcome of this matter is not determinable at this time.
- (b) On May 30, 2002 the CRTC released its price cap decision, that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers (ILECs) for the four years beginning June 1, 2002. The price caps decision requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market, as a result of mandated rate reductions. The deferral account will be reduced by one, or a combination of the following:
- Rate reductions for residential local services that are proposed as the result of competitive pressures;
 - Certain rate reductions for services provided to competitors;
 - The approval of exogenous factors for matters beyond control of the ILECs;
 - Rate increases less than the amount by which inflation exceeds productivity;
 - Subscriber rebates; and
 - Funding initiatives that would benefit residential customers in other ways.

The Company awaits clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features related thereto. The Company has not recognized the deferral account as a liability in its financial statements because in addition to awaiting clarification, it has made a proposal to the CRTC to approve reductions to the deferral account by means other than rebates or rate reductions. Given the circumstances outlined the Company estimates the deferral account balance could be between \$nil and \$23.9 million (2002 - \$nil and \$9.6 million). A liability, should one arise, will be charged to operating income or capital as appropriate.

NOTE 22. COMPARATIVE FIGURES

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