

**ALiant INC.**

(Incorporated under the laws of Canada)

**CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004**



**ALIAN T INC.**  
**Consolidated balance sheets**  
**As at December 31**  
*(thousands of dollars)*

	Notes	2004	2003
<b>Assets</b>			
Current assets			
Cash and cash equivalents	22	\$ 323,265	\$ 365,330
Accounts receivable	3, 22	273,931	320,740
Inventory		22,654	21,177
Prepayments		20,150	21,034
Income tax receivable		28,299	23,423
		<b>668,299</b>	<b>751,704</b>
Capital investments	4	1,911,713	2,013,522
Other assets			
Deferred charges	5	106,705	90,100
Future income tax asset	6	5,400	12,891
Accrued benefit asset	7	172,680	163,440
Goodwill	8	60,783	31,804
Finite-life intangibles	9	11,521	2,832
		<b>357,089</b>	<b>301,067</b>
<b>Total assets</b>		<b>\$ 2,937,101</b>	<b>\$ 3,066,293</b>
<b>Liabilities and shareholders' equity</b>			
Current liabilities			
Notes payable and bank advances	10	\$ 9,101	\$ 17,827
Payables and accruals	11, 22	260,320	238,332
Income tax payable		1,865	18,806
Future income tax liability	6	4,840	3,797
Long-term debt due within one year	12	153,043	101,535
		<b>429,169</b>	<b>380,297</b>
Long-term debt	12	743,342	888,524
Accrued benefit liability	7	170,344	159,156
Deferred credits	13, 20, 22	11,660	10,337
		<b>1,354,515</b>	<b>1,438,314</b>
Non-controlling interest	14	5,242	4,051
Shareholders' equity			
Capital stock	15	1,216,993	1,208,062
Retained earnings		360,351	415,866
		<b>1,577,344</b>	<b>1,623,928</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,937,101</b>	<b>\$ 3,066,293</b>

See accompanying notes to the consolidated financial statements

Signed on behalf of the board of directors

Chairman:

Director:

**ALIAN T INC.**  
**Consolidated statements of income**  
**For the years ended December 31**

*(thousands of dollars, except per share amounts)*

	<b>Notes</b>	<b>2004</b>	<b>2003</b>
Operating revenues	16	\$ 2,033,415	\$ 2,059,051
Expenses			
Cost of operating revenues		285,487	300,380
Operating expenses		999,265	929,320
Depreciation		397,337	390,597
Restructuring charge	11	72,288	14,550
		<b>1,754,377</b>	<b>1,634,847</b>
Operating income		<b>279,038</b>	<b>424,204</b>
Other income (expenses)	17	4,923	(8,203)
Interest charges			
Interest on long-term debt		74,377	81,038
Other interest		662	2,067
		<b>75,039</b>	<b>83,105</b>
Income before underlisted items		<b>208,922</b>	<b>332,896</b>
Income taxes	6	70,107	137,574
Income before non-controlling interest		<b>138,815</b>	<b>195,322</b>
Non-controlling interest		1,774	453
<b>Net income from continuing operations</b>		<b>\$ 137,041</b>	<b>\$ 194,869</b>
<b>Net income from discontinued operations</b>	18	<b>\$ -</b>	<b>\$ 111,342</b>
<b>Net income</b>		<b>\$ 137,041</b>	<b>\$ 306,211</b>
<b>Earnings per common share</b>	19		
Basic from continuing operations		\$ 0.96	\$ 1.35
Basic from discontinued operations		-	0.81
Basic		<b>\$ 0.96</b>	<b>\$ 2.16</b>
Diluted from continuing operations		\$ 0.96	\$ 1.35
Diluted from discontinued operations		-	0.81
Diluted		<b>\$ 0.96</b>	<b>\$ 2.16</b>

*See accompanying notes to the consolidated financial statements*

**ALiant INC.**  
**Consolidated statements of retained earnings**  
**For the years ended December 31**

*(thousands of dollars)*

	Note	2004	2003
Retained earnings, beginning of year		\$ 415,866	\$ 354,080
Net income		137,041	306,211
Preferred share dividends		(9,537)	(9,538)
Common share dividends - paid in cash		(140,895)	(142,323)
Common share dividends - reinvested through Dividend Reinvestment Plan		(5,418)	(5,186)
Excess of repurchase of common shares over stated value	15	(36,706)	(87,378)
<b>Retained earnings, end of year</b>		<b>\$ 360,351</b>	<b>\$ 415,866</b>

*See accompanying notes to the consolidated financial statements*

**ALIAN T INC.**  
**Consolidated statements of cash flows**  
**For the years ended December 31**

(thousands of dollars)

	Notes	2004	2003
Cash and cash equivalents from (used in) operating activities			
Net income from continuing operations		\$ 137,041	\$ 194,869
Funding of defined benefit pension and other post employment benefits plans	7	(87,078)	(103,700)
Deferred commissions and subsidies		(51,730)	(40,493)
Add (deduct) non-cash items:			
Depreciation		397,337	390,597
Amortization of deferred commissions and subsidies		42,546	32,162
Loss (gain) on disposal of assets		(1,855)	10,224
Future income taxes		(1,696)	(9,919)
Defined benefit pension and other post employment benefits plans cost	7	64,026	50,543
Non-controlling interest		1,774	453
Other non-cash items		3,888	3,885
		<b>504,253</b>	<b>528,621</b>
Change in non-cash working capital		<b>77,670</b>	<b>109,506</b>
		<b>581,923</b>	<b>638,127</b>
Cash and cash equivalents from (used in) financing activities			
Repurchase of accounts receivable	3	(5,000)	(5,000)
Collection of long-term receivable		4,874	4,726
Net repayments of notes payable and bank advances		(9,474)	(28,764)
Repayments of long-term debt		(100,081)	(75,532)
Increase (decrease) in capital lease obligations		(244)	1,220
Increase (decrease) in non-controlling interest		(583)	324
Issuance of common shares		1,922	9,478
Repurchase of common shares		(50,631)	(200,949)
Preferred share dividends		(9,537)	(9,538)
Common share dividends		(140,895)	(142,323)
		<b>(309,649)</b>	<b>(446,358)</b>
Cash and cash equivalents from (used in) investing activities			
Purchase of capital investments		(294,960)	(335,801)
Proceeds on sale of capital investments		4,056	3,924
Increase in investments		-	(79)
Business acquisitions, net of cash	2	(23,435)	-
		<b>(314,339)</b>	<b>(331,956)</b>
Cash and cash equivalents used in continuing operations		<b>(42,065)</b>	<b>(140,187)</b>
Cash and cash equivalents from discontinued operations	18	-	327,305
Cash and cash equivalents, beginning of year		<b>365,330</b>	<b>178,212</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 323,265</b>	<b>\$ 365,330</b>
Supplementary disclosure			
Interest paid		\$ 74,728	\$ 84,058
Net income taxes paid		\$ 81,689	\$ 90,224

See accompanying notes to the consolidated financial statements

## **1. SIGNIFICANT ACCOUNTING POLICIES**

### *Consolidated financial statements*

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

We consolidate the financial statements of all the companies we control and proportionately consolidate our share of the financial statements of our joint venture interest. At December 31, 2004, our principal subsidiaries include Aliant Telecom Inc., Innovatia Inc., DownEast Ltd, Aliant Information Technology Inc. and Xwave Solutions Inc. Our joint venture interest is in Aliant ActiMedia. All transactions and balances between these companies have been eliminated on consolidation.

### *Use of accounting estimates*

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

### *Revenue recognition*

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

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

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

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

For fixed-price service contracts, we recognize revenue based on performance as services are provided, equipment is delivered, or contract milestones are met. If it is determined during the performance of the contract that a loss will result, a provision for the estimated loss is immediately recognized.

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

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, investments in money market instruments with a maturity of less than 90 days, and notes receivable from Bell Canada Inc. ("Bell Canada") with a maturity of 30 days (as described in note 22), all of which are readily convertible to cash and subject to an insignificant risk of change in fair value.

### *Transfer of receivables*

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

### *Inventory*

Inventory represents products or equipment purchased for resale. We value inventory at the lower of cost and net realizable value, with cost being the weighted average laid-down cost using the first-in, first-out method.

### *Income taxes*

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

**ALIANNT INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

---

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

*Capital investments*

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

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

We capitalize contracted costs, labour and overhead related to our self-constructed assets, classified as plant under construction. We do not commence depreciating our plant under construction until it becomes operational.

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

*Deferred costs*

Deferred charges mainly include our retained interest in the transfer of accounts receivable to a securitization trust, other long-term receivables and certain long-term costs that are being amortized as follows:

Deferred charge	Amortization period	Income statement impact
Commissions and subsidies	Length of the customer contract	Operating expenses
Debt issue costs	Period to maturity of the underlying long-term debt obligation	Interest charges

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

---

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

Deferred credits mainly include long-term costs that are being recognized as follows:

Deferred credits	Recognition period	Income statement impact
Long-term debt premium income	Period to maturity of the underlying long-term debt obligation	Reduction of interest charges
Deferred revenue	Length of the customer contract	Operating revenues

*Goodwill*

Goodwill represents the excess, at the dates of acquisition, of the costs of an acquired business over the fair values of the net amounts assigned to individual assets acquired and liabilities assumed. We annually review goodwill of all of our reporting units to ensure that its fair value remains greater than, or equal to, carrying value. Fair value is based on projected discounted cash flows. If the fair value of the reporting unit is less than its carrying value we will then calculate the fair value of the goodwill by comparing the fair value of the reporting unit to the fair value of its individual assets and liabilities. If the resulting fair value of goodwill is less than its carrying value, an impairment exists. Any impairment in the value of goodwill is charged to income in the period that the review is performed.

*Finite-life intangibles*

Finite-life intangible assets represent contractual or other legal rights acquired in a business combination, and are recorded at cost. We calculate amortization over the useful lives of the assets as noted below:

Finite-life intangibles	Method	Period
Residual commissions	Declining balance	6 years
Customer relationships	Straight-line	2-9 years

*Derivative financial instruments*

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

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

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

### *Derivative financial instruments (continued)*

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

The following describes our policy for specific derivatives currently in use:

We use interest rate swap and swaption agreements as part of a plan to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing.

- The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest charges on the hedged long-term debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.
- If the interest rate swaption agreement is exercised it will result in us entering into an interest rate swap, which will be accounted for as described above. Prior to the exercise of the swaption the long-term debt premium income we receive is amortized as an adjustment to interest charges over the period from receipt of the premium income to maturity of the underlying long-term debt obligation.

### *Post employment benefits*

We provide pension plans and non-pension post employment benefits to qualified employees. These include defined benefit (DB) pension plans, defined contribution (DC) pension plans, retirement savings plans and other post employment benefit (OPEB) plans such as life insurance and health care plans.

We accrue our obligations under these plans. In the case of DB pension plans, we present the liability and any deferred actuarial gains and losses in the plans net of the fair value of plan assets which are invested to fund that liability.

December 31 is the measurement date of our employee benefit plans. A valuation of each plan 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 valuations are dated November 1, 2004, and were performed as of December 31, 2003. The next required actuarial valuations will be as of December 31, 2004, due to the significant amendments that were implemented during 2004, and these valuations will be completed in 2005.

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

### *Post employment benefits (continued)*

We have adopted the following policies for our DB pension plans and OPEB plans:

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

### *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.

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

### *Stock-based compensation plans*

Under our stock option plan, for awards granted after January 1, 2003, we record compensation expense, calculated using the fair value method as determined using the Black-Scholes model. Compensation expense recognition commences when stock options are issued to employees, with full recognition equally over the vesting period, being three years.

As permitted under the CICA accounting standard for stock-based compensation and other stock-based payments, we do not record compensation expense upon issuance of stock options to employees under our own stock option plan for awards granted prior to January 1, 2003. However, as required by the standard, we are disclosing the pro-forma net income and pro-forma earnings per common share using the fair value method of accounting for stock-based compensation awards. The pro-forma information is presented in note 19.

Compensation expense is also recorded as units vest under our performance share unit plan, and for our contributions to the employees' stock savings plan.

### *Asset retirement obligations*

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

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**2. BUSINESS ACQUISITIONS AND DISPOSITIONS**

*Acquisition in the Telecommunications segment*

On October 1, 2004, we purchased 100 per cent of the outstanding common shares of DownEast Mobility Limited, a wireless retailer and Aliant dealer. The results of DownEast Mobility Limited operations have been included in our consolidated financial statements since that date.

The table below shows the purchase price allocation.

*(thousands of dollars)*

Accounts receivables	\$	4,965
Inventory		2,135
Prepayments		671
Capital investments		1,926
Finite-life intangibles		7,600
Payables and accruals		(1,745)
Future tax liability		(2,046)
Goodwill		28,626
		42,132
Cash position at acquisition		(747)
Net assets acquired	\$	41,385
<hr/>		
Consideration		
Cash	\$	19,735
Long-term debt		6,650
Issuance of 582,081 Aliant Inc. common shares		15,000
	\$	41,385

The finite-life intangibles relate to residual commissions between Aliant Telecom Inc. and DownEast Mobility Limited and are subject to amortization. Goodwill recognized in this business acquisition is not deductible for tax purposes. The number of Aliant Inc. common shares issued was determined using the volume weighted average price of the common shares traded on the TSX on the last five trading days up to, and including, the closing date.

The long-term debt incurred as consideration paid for the acquisition is non-interest bearing but for financial statement purposes has been discounted by 6.70 per cent.

*Acquisition and dispositions in the Information Technology segment*

On December 1, 2004, we acquired the net assets of the Atlantic Canada operations of Fujitsu Consulting (Canada) Inc. These operations offer consulting skills and client knowledge, complementing our existing experience and strengthening our presence in Atlantic Canada. The results of this consulting operation have been included in our consolidated financial statements since that date.

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

---

**2. BUSINESS ACQUISITIONS AND DISPOSITIONS (Continued)**

The table below shows the purchase price allocation:

*(thousands of dollars)*

Accounts receivable	\$ 1,346
Prepayments	13
Capital investments	99
Finite-life intangibles	2,248
Payables and accruals	(359)
Goodwill	353
	<hr/> 3,700
Cash position at acquisition	-
Net assets acquired	<hr/> \$ 3,700
	<hr/>
Consideration	
Cash	\$ 3,700
	<hr/> \$ 3,700

Finite-life intangibles relate to the active and potential customers' contracts in place at the time of acquisition and are subject to amortization. Goodwill recognized in this business acquisition is expected to be fully deductible for tax purposes.

On June 1, 2004, we sold our Internet help desk operation and on July 31, 2004, we sold our information technology service business in Western Canada. Proceeds received on these dispositions amounted to \$2.6 million. The carrying value of net assets was \$1.1 million at the time of the sale. The gain, net of transaction costs, has been recorded in other income (expenses), as presented in note 17.

**3. TRANSFER OF RECEIVABLES**

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

As part of the agreement, we are required to provide security, currently in the form of additional accounts receivable over and above the cash proceeds received, which is held and owned by the trust. This security is transferred back to us upon the expiry of the agreement and as such we have recorded these accounts receivable in deferred charges as a retained interest in the securitization trust. At December 31, 2004, this retained interest amounted to \$43.5 million (2003 - \$28.7 million).

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

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

Under the agreement the trust reinvests the amounts collected by buying additional interest in our accounts receivable until the agreement expires. During the term of the agreement, we remain subject to certain risks of default which, should they occur, could cause the agreement to end early.

During the year ended December 31, 2004, we recognized a pre-tax loss and administration fees of \$3.3 million, (2003 - \$4.5 million) on the transfer of receivables.

The table below shows the securitization, certain cash flows received from and paid to the trust during the year, and the assumptions that were used in determining the fair value on the date of transfer. The sensitivity of these assumptions to an immediate 10 to 20 per cent change is not material.

<i>(thousands of dollars, except as otherwise noted)</i>	<b>Range</b>	<b>2004</b>	<b>2004</b>	<b>2003</b>
	<b>2004</b>			
As at December 31				
Securitized interest in accounts receivable		\$ 168,484	\$	158,726
Cash proceeds		\$ 125,000	\$	130,000
Retained interest		\$ 43,484	\$	28,726
Servicing liability		\$ 435	\$	424
Average trade accounts receivable managed		\$ 227,673	\$	209,796
For the year ended December 31				
Collections reinvested in revolving sales		\$ 1,812,448	\$	1,839,938
Decrease in sales proceeds		\$ 5,000	\$	5,000
Assumptions:				
Cost of funds	2.02% - 2.94%	<b>2.62%</b>		3.42%
Average delinquency ratio	13.30% - 23.20%	<b>18.20%</b>		11.90%
Average net credit loss ratio	0.67% - 1.27%	<b>0.96%</b>		1.08%
Weighted average life in days	41 - 49	<b>45</b>		42

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**4. CAPITAL INVESTMENTS**

<b>As at December 31, 2004</b> <i>(thousands of dollars)</i>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>
Land	\$ 12,828	\$ -	\$ 12,828
Buildings and towers	367,494	179,652	187,842
Telecommunications facilities and equipment	4,510,403	3,044,641	1,465,762
Application software and other equipment	529,801	342,220	187,581
Plant under construction	52,200	-	52,200
Materials and supplies	5,500	-	5,500
	<b>\$ 5,478,226</b>	<b>\$ 3,566,513</b>	<b>\$ 1,911,713</b>

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

**5. DEFERRED CHARGES**

<b>As at December 31</b> <i>(thousands of dollars)</i>	<b>2004</b>	<b>2003</b>
Commissions and subsidies, net of amortization	\$ 50,604	\$ 41,420
Retained interest in transfer of accounts receivables (note 3)	43,484	28,726
Long-term receivable	-	4,874
Debt issue costs, net of amortization	3,576	4,191
Customer instalments	5,199	7,320
Other	3,842	3,569
	<b>\$ 106,705</b>	<b>\$ 90,100</b>

We recorded aggregate amortization expense on deferred charges for the year ended December 31, 2004 of \$44.0 million (2003 - \$33.4 million).

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**6. 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 in the following table:

As at December 31 (thousands of dollars)	2004	2003
Capital investments	\$ 14,298	\$ 3,884
Pension and post employment benefits	(4,006)	7,651
Deferred charges	(23,658)	(17,376)
Loss carryforwards	3,943	2,083
Long-term debt expense and premium	2,906	3,055
Severance and benefits	2,039	800
Other	5,038	8,997
Net future income tax asset	560	9,094
Less: current portion of future income tax liability	(4,840)	(3,797)
Future income tax asset	\$ 5,400	\$ 12,891

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

For the year ended December 31 (thousands of dollars)	2004	2003
Current tax expense	\$ 71,802	\$ 147,493
Future tax expense:		
Change in temporary differences	6,558	(3,879)
Tax rate differential - settlement of prior years tax issues	(9,456)	-
Change in statutory rate	1,203	(6,040)
Income tax expense	\$ 70,107	\$ 137,574

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

For the year ended December 31	2004	2003
Statutory income tax rate (including surtax)	35.90 %	39.00 %
Federal large corporation tax	1.04	0.54
Tax rate differential - settlement of prior years tax issues	(4.53)	-
Tax rate change - future asset	0.48	(1.77)
Non-taxable loss	(0.14)	(0.37)
Non-deductible goodwill	0.06	0.05
Benefit of non-capital losses not recognized	0.13	1.27
Other permanent differences	0.62	2.61
Effective income tax rate	33.56 %	41.33 %

## **6. INCOME TAXES (Continued)**

### *Tax losses*

At December 31, 2004, we have accumulated \$46.4 million (2003 - \$44.7 million) in non-capital tax losses that are available to reduce taxable income in future years. These losses will expire in years 2010 and beyond if not used. The tax benefit on \$11.1 million of the non-capital losses (2003 - \$12.9 million) has been recognized as part of the future tax asset.

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

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

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

### *DC pension plans and other retirement savings plans*

For most member-employees, our DC pension plans and other retirement savings plans require company contributions and employee contributions of between nil and 6 per cent of pensionable earnings, depending on the plan. For executives, there is a DC pension plan that requires company contributions of 10 per cent of the executive's earnings. The total cost of these DC pension plans is equal to our required contributions and was \$11.7 million for the year ended December 31, 2004 (2003 - \$11.3 million).

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

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

*DB pension plans*

Our DB pension plans provide a pension to employees that reach 65 years of age at retirement with at least two years of service. For employees that retire before age 65 but meet other age-plus-service requirements, either a reduced or unreduced pension may be payable. The exact formulas for determining the benefits provided under these plans vary with the employee's length of service and whether the employee is a bargaining unit member, management or executive. The core benefit for all employees that are members of a DB pension plan is based on a formula of 1.5 per cent of the employee's best five-year average earnings for each year of service. For example, an employee with 30 years of service at 1.5 per cent per year could receive a pension equal to 45 per cent of the employee's best five-year average earnings. Pensions paid are subject to annual indexing, ranging from the Consumer Price Index up to certain maximum yearly escalation factors. In addition to the registered pension plans we have for most employees, we have non-registered supplemental DB pension plans that cover DB pension benefits for our executives. The obligation related to these supplemental plans totals \$68.3 million at December 31, 2004 (2003 - \$63.0 million) and is included in the accrued benefit obligation at year end.

Effective September 20, 2004, certain terms of our DB pension plans were amended to award past service benefits and introduce a contributory feature for certain bargaining unit employees. The past service obligation resulting from these plan amendments is \$31.3 million. Employees to whom the contributory feature was extended will contribute 2.5 per cent of future basic wages and will receive an enhanced benefit of an additional 0.25 per cent of the employee's pensionable earnings for service after September 20, 2004.

Effective December 31, 2004, certain terms of our DB pension plans were amended to award past service benefits to eligible management employees. The estimated past service obligation resulting from these plan amendments is \$44.1 million. The increase in the past service obligation from amendments to the DB pension plans in 2004 is shown in the Components of accrued benefit asset (liability) table below as \$75.4 million.

Also during the fourth quarter of 2004, we offered a voluntary early retirement incentive program, resulting in a workforce reduction of 693 employees, as discussed in note 11. The increase in the estimated actuarial loss of our DB pension obligation is \$47.0 million, and is included in the actuarial losses totalling \$182.0 million in the Components of accrued benefit asset (liability) table below.

We have reduced our assumed discount rate for employee future benefit obligations from 6.75 per cent to 6.25 per cent effective December 31, 2004. This change in assumption added \$116.6 million to our DB pension plan obligations, and is included as a component of the actuarial losses in the Components of accrued benefit asset (liability) table below.

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

*OPEB plans*

The OPEB plans we provide to eligible retiring employees include health care coverage, life insurance and certain other benefits. We do not maintain a trust fund to pay for OPEBs, rather we pay the benefits directly to the plan carrier or to the retired employee. The impact of reducing the discount rate assumption for the OPEB plan obligations from 6.75 per cent to 6.25 per cent is reflected as an actuarial loss of \$12.1 million in the Components of accrued benefit asset (liability) table below.

*Components of accrued benefit asset (liability)*

The following table shows the change in the obligations and assets related to the DB pension plans and the OPEB plans during the years ended December 31.

	DB pension plans		OPEB plans	
<i>(thousands of dollars)</i>	2004	2003	2004	2003
<b>Plan obligations:</b>				
Accrued benefit obligation, beginning of year	\$ 1,496,455	\$ 1,379,459	\$ 161,376	\$ 159,681
Employee current service contributions	925	-	-	-
Cost of benefits earned in the year	24,239	24,753	4,564	4,431
Interest on the obligation	99,596	93,893	10,911	10,189
Past service costs relating to plan amendments	75,402	-	-	-
Actuarial (gains) losses	182,019	83,413	12,080	(8,914)
Benefits paid out of the plan	(84,520)	(85,063)	(4,287)	(4,011)
Accrued benefit obligation, end of year	\$ 1,794,116	\$ 1,496,455	\$ 184,644	\$ 161,376
<b>Plan assets:</b>				
Fair value of plan assets, beginning of year	\$ 1,262,442	\$ 1,081,830	\$ -	\$ -
Actual return on plan assets, excluding impact of foreign currency losses	137,263	182,841	-	-
Foreign currency losses	(18,041)	(41,855)	-	-
Benefits paid out of the plans	(84,520)	(85,063)	(4,287)	(4,011)
Employee current service contributions	925	-	-	-
Employer cash contributions to the plans	57,791	99,689	4,287	4,011
Contributions receivable by the plans	-	25,000	-	-
Fair value of plan assets, end of year	\$ 1,355,860	\$ 1,262,442	\$ -	\$ -
Plan deficit, end of year	\$ (438,256)	\$ (234,013)	\$ (184,644)	\$ (161,376)
Unamortized actuarial losses	536,107	397,453	14,300	2,220
Unamortized past service costs	74,829	-	-	-
Accrued benefit asset (liability), end of year	\$ 172,680	\$ 163,440	\$ (170,344)	\$ (159,156)

Each of the individual DB pension plans that make up the totals included in the previous table have deficits where the accrued benefit obligation exceeds the fair value of plan assets.

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

*Components of DB pension plans and OPEB plans cost*

The table below shows the components of the DB pension plans and the OPEB plans cost before and after recognizing their long-term nature. The net benefit plans cost reflects the amount reported in our consolidated statements of income.

For the year ended December 31 (thousands of dollars)	DB pension plans		OPEB plans	
	2004	2003	2004	2003
Cost of benefits earned in the year	\$ 24,239	\$ 24,753	\$ 4,564	\$ 4,431
Interest on the obligation	99,596	93,893	10,911	10,189
Actual (gain) loss on plan assets	(119,222)	(140,986)	-	-
Past service costs arising during the year	75,402	-	-	-
Actuarial loss (gain) on accrued benefit obligation	182,019	83,413	12,080	(8,914)
Elements of employee future benefit plans cost, before recognizing its long-term nature	\$ 262,034	\$ 61,073	\$ 27,555	\$ 5,706
Excess of actual return over expected return	\$ 24,518	\$ 49,336	\$ -	\$ -
Deferral of amounts arising during the year				
Past service costs	(75,402)	-	-	-
Actuarial (loss) gain on accrued benefit obligation	(182,019)	(83,413)	(12,080)	8,914
Amortization of deferred amounts:				
Past service costs	573	-	-	-
Net actuarial losses	18,847	8,927	-	-
Adjustments to recognize long-term nature of employee future benefits cost	\$ (213,483)	\$ (25,150)	\$ (12,080)	\$ 8,914
<b>Net benefit plans' cost</b>	<b>\$ 48,551</b>	<b>\$ 35,923</b>	<b>\$ 15,475</b>	<b>\$ 14,620</b>

*Assumptions*

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

	2004		2003	
Rate used to discount the obligations	6.25	%	6.75	%
Expected return on plan assets	7.50	%	7.50	%
Rate of compensation increase	3.50	%	3.50	%
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	%

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

*Sensitivity to changes in assumptions*

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

<i>(thousands of dollars, rounded to millions)</i>	Assumption	Rate	DB pension plans		OPEB plans	
		change	Obligation	Cost	Obligation	Cost
Rate used to discount the obligations	6.25%	+/- 0.25%	\$ 63,000	\$ 1,000	\$ 6,000	\$ -
Expected return on plan assets	7.50%	+/- 0.25%	\$ -	\$ 3,000	\$ -	\$ -
Rate of compensation increase	3.50%	+/- 0.25%	\$ 10,000	\$ 1,000	\$ -	\$ -
Growth rate of per capita health care costs	4.50-8.00%	+ 1.00%	\$ -	\$ -	\$ 27,000	\$ 3,000
		- 1.00%	\$ -	\$ -	\$ (23,000)	\$ (2,000)

The indicated impact of a 0.25 change in the discount rate on annual net benefit plans' cost includes the impact on the interest and current service cost components of pension cost. In addition to these impacts, the amount of amortization of net actuarial losses would also change, but, this change would depend on whether the 0.25 change was an increase in the discount rate or a decrease in the discount rate and would not extrapolate to other assumed changes in the discount rate. For reference, the amount of amortization of net actuarial losses would increase by approximately \$4.8 million if the discount rate were to be reduced by 0.25 per cent to 6.00 per cent.

*Investment of DB pension plans assets*

We have established a Master Trust to hold and invest the assets of the DB pension plans. The Master Trust follows an investment policy that includes the following asset mix as at December 31.

Asset category	Target weight	Percentage of plan assets		Weighted average expected long-term rate of return
		2004	2003	
Domestic bonds/fixed income securities	40%	<b>41%</b>	40%	6.00%
Canadian equity securities	25%	<b>26%</b>	27%	8.50%
Non-Canadian equity securities	35%	<b>33%</b>	33%	8.50%
Total	100%	<b>100%</b>	100%	7.50%

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

*Investment of DB pension plans assets (continued)*

The asset mix policy is established through consideration of many factors, including tolerance for fluctuation in market values, portfolio diversification and the targeted long-term rate of return for the assets. Foreign exchange risk is inherent in the asset mix policy and foreign currency fluctuations may significantly impact the Canadian dollar returns on the Master Trust portfolio, especially over short time periods (e.g. 1-5 years). When the Canadian dollar rises in value, the returns on the non-Canadian investments will fall as their market value is translated into Canadian dollars, or conversely, as the Canadian dollar falls in value, the returns on non-Canadian investments will rise as their value is translated into Canadian dollars. We have established an investment policy for the Master Trust that requires approximately 20 per cent of the non-Canadian equity exposure be hedged to the Canadian dollar. The remainder of the Master Trust's non-Canadian investments will be impacted by the fluctuating value of the Canadian dollar.

Over the past 10 years, our weighted average rate of return for our DB pension plans was 9.3 per cent per annum.

The Master Trust is not permitted to directly own common shares or debt obligations of our Company or our subsidiaries. The Master Trust does own units of index funds that may hold shares of Aliant Inc. or debt instruments of our subsidiaries by virtue of the fact that these securities are included in the relevant indices.

The total value of our securities and those of our related issuers held directly or indirectly in the Master Trust as at December 31 was as follows:

As at December 31 <i>(thousands of dollars, except as otherwise noted)</i>	<b>2004</b>		<b>2003</b>	
	Approximate value	Approximate per cent of total plan assets	Approximate value	Approximate per cent of total plan assets
Plan assets held				
Common shares of BCE Inc.	\$ 4,300	0.30%	\$ 7,100	0.60%
Debentures of BCE Inc. and Bell Canada	6,000	0.50%	6,700	0.50%
Securities of Aliant Inc., held indirectly	300	0.00%	1,200	0.10%
	<b>\$ 10,600</b>	<b>0.80%</b>	<b>\$ 15,000</b>	<b>1.20%</b>

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

*Pension plan contributions*

We are responsible for adequately funding our DB pension plans. These plans are registered under the Income Tax Act and regulated by the Office of the Superintendent of Financial Institutions. The required contributions to the registered plans are made to a trust fund that is used to pay benefits under the plans. These contributions are determined by actuarial valuations and reflect actuarial assumptions about future investment returns, salary projections and future service benefits. We are funding the registered DB pension plans through contributions that meet or exceed the applicable statutory funding rules and regulations governing the particular plans.

The DB and DC pension arrangements for executives and OPEB plans are not registered pension plans. Therefore we fund payments under these plans directly when the benefits are paid to retirees.

Our required and voluntary contributions to DB pension plans as well as our contributions made to OPEBs and DC pension plans are shown in the table below.

As at December 31 (thousands of dollars)	2004	2003
DB pension plans		
Required contributions	\$ 56,936	\$ 69,689
2003 contributions received (receivable) by the plans	25,000	(25,000)
Additional voluntary contributions	855	55,000
OPEBs plans contributions	4,287	4,011
	<b>87,078</b>	103,700
DC pension plans contributions	11,678	11,281
Total contributions	<b>\$ 98,756</b>	\$ 114,981

**8. GOODWILL**

As at December 31 (thousands of dollars)	2004	2003
Goodwill, beginning of year	\$ 31,804	\$ 31,804
Goodwill acquired (note 2)	28,979	-
Goodwill, end of year	<b>\$ 60,783</b>	\$ 31,804
Goodwill relates to the following operating segments:		
Telecommunications	\$ 28,626	\$ -
Information Technology	32,157	31,804
	<b>\$ 60,783</b>	\$ 31,804

The annual impairment test conducted during the second quarter indicated that no impairment provision was required.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**9. FINITE-LIFE INTANGIBLES**

<b>As at December 31, 2004</b>			
<i>(thousands of dollars)</i>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
<b>Residual commissions</b>	\$ 7,600	\$ 700	\$ 6,900
<b>Customer relationships</b>	6,357	1,736	4,621
	\$ 13,957	\$ 2,436	\$ 11,521

<b>As at December 31, 2003</b>			
<i>(thousands of dollars)</i>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
<b>Residual commissions</b>	\$ -	\$ -	\$ -
<b>Customer relationships</b>	4,109	1,277	2,832
	\$ 4,109	\$ 1,277	\$ 2,832

We recorded aggregate amortization expense on finite-life intangibles for the year ended December 31, 2004 of \$1.2 million (2003 - \$0.5 million).

**10. NOTES PAYABLE AND BANK ADVANCES**

At December 31, 2004, we have \$nil million (2003 - \$nil million) outstanding under our commercial paper program. We maintain lines of credit totalling \$562.0 million (2003 - \$557.0 million) of which \$350.0 million (2003 - \$350.0 million) are committed lines supporting our commercial paper program, \$150.0 million (2003 - \$150.0 million) are uncommitted operating lines and \$62.0 million (2003 - \$57.0 million) are operating lines of credit within our subsidiaries. There was \$0.8 million drawn from our subsidiaries bank operating lines of credit at December 31, 2004 (2003 - \$4.5 million). At December 31, 2004, there were letters of credit committed against subsidiaries operating lines of credit of \$6.1 million (2003 - \$6.9 million).

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

---

**11. RESTRUCTURING CHARGE**

During 2003, our Information Technology segment commenced a restructuring program to restore profitability, improve productivity, realign their strategy and simplify their business model. This resulted in workforce reductions resulting in \$14.5 million mostly relating to severance and benefits being recorded as a restructuring charge.

In 2004, we continued our 2003 program to restructure operations in our Information Technology segment and we also reduced the workforce in certain areas of our Telecommunications segments. The result of these activities was a provision against earnings of \$5.7 million during the year (2003 - \$14.5 million). As well, in October 2004 we offered a voluntary early retirement incentive program (ERIP) to all eligible employees with the retirement date for most employees being January 1, 2005. The ERIP was accepted by 693 eligible employees and resulted in a charge against earnings of \$66.6 million. Our restructuring efforts are part of our process transformation agenda with the outcome being improved productivity and profitability in 2005 and beyond.

The total restructuring charge recorded in 2004 is as follows:

As at December 31	2004			
<i>(thousands of dollars)</i>	Telecommunications	Information Technology	Corporate and others	Consolidated
Severance and benefits	\$ 63,043	\$ 5,118	\$ 1,447	\$ 69,608
Premise rationalization costs and technology lease cancellation penalties	2,000	680	-	2,680
<b>Total</b>	<b>\$ 65,043</b>	<b>\$ 5,798</b>	<b>\$ 1,447</b>	<b>\$ 72,288</b>

At December 31, 2004, payables and accruals include a provision of \$68.6 million (2003 - \$6.2 million) which will be substantially drawn down in 2005 as the remaining employees leave the organization.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**12. LONG-TERM DEBT**

As at December 31 (thousands of dollars)	Interest rate	Maturity	2004		2003		
<b>Telecommunications</b>							
Notes							
Aliant Telecom Inc.							
Series 1	6.46%	2004	\$	-	\$	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	
			\$	500,000	\$	600,000	
<b>Bonds</b>							
Maritime Tel & Tel							
AD	10.45%	2013	\$	50,000	\$	50,000	
Island Telecom							
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							
T	10.75%	2014		75,000		75,000	
V	11.40%	2010		40,000		40,000	
			\$	185,000	\$	185,000	
<b>Debentures</b>							
Maritime Tel & Tel							
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							
AA	11.13%	2013		40,000		40,000	
			\$	200,000	\$	200,000	
			\$	885,000	\$	985,000	
Present value of obligations under capital leases				4,537		4,746	
Total - Telecommunications				\$	889,537	\$	989,746
<b>Information Technology</b>							
		2006	\$	198	\$	313	
<b>Other</b>							
	6.70%	2009	\$	6,650	\$	-	
Total long-term debt			\$	896,385	\$	990,059	
Less: Portion due within one year				153,043		101,535	
			\$	743,342	\$	888,524	

**ALIANTE INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**12. LONG-TERM DEBT (Continued)**

*Telecommunications*

We repaid a \$100.0 million 6.46% Aliant Telecom Inc. Series 1 note that matured on October 15, 2004.

All bonds are issued in series and all, except for Series "V" issued by NewTel Communications, are redeemable at our option prior to maturity at the prices, times and conditions specified in each series. The bonds are secured by deeds of trust and mortgage and by supplemental deeds. These instruments contain a first fixed and specific mortgage, a pledge and charge upon all real and tangible property and equipment, which includes inventory and all capital investments except software, and all rights and licenses related to that property of Aliant Telecom Inc. located in either Nova Scotia with respect to the Maritime Tel & Tel issued bonds; in Prince Edward Island with respect to the Island Telecom issued bonds and in Newfoundland and Labrador with respect to the NewTel Communications issued bonds. The bonds also provide, based on province of issue, a floating charge on all future real and tangible property of Aliant Telecom Inc. and all revenues and proceeds derived from that property located in those three provinces.

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

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

<i>(thousands of dollars)</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>
Long-term debt	\$ 151,263	\$ 1,347	\$ 101,325	\$ 1,411	\$ 105,002	\$ 531,500
Capital leases	1,780	1,892	865	-	-	-
	\$ 153,043	\$ 3,239	\$ 102,190	\$ 1,411	\$ 105,002	\$ 531,500

**13. DEFERRED CREDITS**

<i>(thousands of dollars)</i>	<b>2004</b>	<b>2003</b>
As at December 31		
Long-term debt premium income (note 20)	\$ 8,426	\$ 9,447
Deferred revenue (note 22)	1,850	-
Other	1,384	890
	\$ 11,660	\$ 10,337

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**14. NON-CONTROLLING INTEREST**

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

As at December 31 (thousands of dollars)	2004		2003	
Xwave New England Corp. (formally known as TechKnowledge Inc.)	\$	-	\$	583
Atlantic Mobility Products Ltd.		<b>5,242</b>		3,468
	<b>\$</b>	<b>5,242</b>	<b>\$</b>	<b>4,051</b>

**15. CAPITAL STOCK**

*Authorized*

Unlimited number of preference shares, cumulative, redeemable at the price of \$25.00 per share and with a fixed annual dividend rate of \$1.3625 per share. These shares are non-voting, except under certain conditions, and are redeemable at our option on June 30, 2006, or on June 30 of each fifth year thereafter. Preference shareholders may convert their series 2 preference shares to series 3 shares on a one-to-one basis on June 30, 2006, or on June 30 each fifth year thereafter, provided that we have not delivered a notice of redemption. The fixed dividend on the series 2 shares is paid quarterly and will be re-set every five years starting on June 30, 2006, to a rate that is not less than 80 per cent of the five-year Government of Canada bond yield. The series 3 shares have terms that are substantially the same as the series 2 shares except that, if issued, will pay a floating adjustable dividend rate monthly.

Unlimited number of common shares, without par value.

*Issued and outstanding*

As at December 31 (thousands of dollars, except as otherwise noted)	2004		2003	
	Number of shares	Stated capital	Number of shares	Stated capital
Preference shares, series 2	7,000,000	\$ 172,264	7,000,000	\$ 172,264
Common shares	132,744,009	1,044,729	133,616,920	1,035,798
		<b>\$ 1,216,993</b>		<b>\$ 1,208,062</b>

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**15. CAPITAL STOCK (Continued)**

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

As at December 31 <i>(thousands of dollars, except as otherwise noted)</i>	<b>2004</b>		2003	
	<b>Number of shares</b>	<b>Stated capital</b>	Number of shares	Stated capital
Common shares, beginning of year	<b>133,616,920</b>	<b>\$ 1,035,798</b>	139,513,639	\$ 1,070,551
Common shares issued (note 2)	<b>582,081</b>	<b>15,000</b>	-	-
Common shares purchased for cancellation	<b>(1,732,130)</b>	<b>(13,410)</b>	(6,528,570)	(49,309)
Dividend reinvestments	<b>229,316</b>	<b>6,405</b>	197,719	5,927
Stock option plan	<b>47,822</b>	<b>936</b>	434,132	8,629
Common shares, end of year	<b>132,744,009</b>	<b>\$ 1,044,729</b>	133,616,920	\$ 1,035,798

*Common shares purchased for cancellation*

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

Under a normal course issuer bid, which commenced August 6, 2003, and ended August 5, 2004, we acquired, from time to time, our common shares at the market price with cash through the facilities of the TSX. Bell Canada, our majority shareholder, sold shares into the normal course issuer bid on a pro-rata basis, as granted by the TSX. As of December 31, 2004, we purchased and cancelled all of the allowable 6,925,000 shares (shares purchased from Bell Canada – 3,470,567), of which 5,192,870 shares were purchased in 2003 (shares purchased from Bell Canada in 2003 – 2,643,070).

For the year ended, December 31, 2004, we purchased for cancellation 1,732,130 shares (2003 – 6,528,570) for an aggregate price of \$50.6 million (2003 - \$200.9 million) which reduced capital stock by \$13.4 million (2003 - \$49.3 million), contributed surplus by \$0.5 million (2003 - \$64.2 million) and retained earnings by \$36.7 million (2003 – \$87.4 million).

*Dividend reinvestments*

Under the provisions of our common shareholder dividend reinvestment and stock purchase plan, shareholders may elect to purchase additional common shares in lieu of receiving corporate dividends in the form of cash. During the year, we issued common shares in lieu of paying cash dividends of \$6.4 million (2003 - \$5.9 million).

Under our employees' stock savings plans, dividends are automatically reinvested in additional common shares. In relation to this plan, we issued common shares in lieu of paying cash dividends during the year ended December 31, 2004, of \$3.8 million (2003 - \$3.1 million). Common shares are purchased on the open market for participants in our employees' stock savings plan.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**15. CAPITAL STOCK (Continued)**

*Stock option plan*

We have a stock option plan for executives and certain senior managers. Under this stock option plan, we may grant stock options to plan members for up to 6,852,714 shares of common stock, of which 2,496,777 options for the same number of common shares were outstanding as at December 31, 2004 (2003 – 2,338,367). With the exception of the stock options that were granted on January 29, 2004, the exercise price of each option equals the market price of our common shares on the date of grant. In January 2004, our common share price rose significantly and temporarily on market speculation. As a result of the price increase, we requested, and were granted, by the TSX the right to use a five-day average trading value for purposes of determining the exercise price of the stock option grant only. The right to exercise the options vests evenly over three years from the date they are granted under the plan and can be exercised for a period of up to 10 years from the date of grant.

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

As at December 31	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding at beginning of year	2,338,367	\$ 30.06	2,680,450	\$ 28.94
Granted	432,621	\$ 32.39	289,138	\$ 26.84
Forfeited	(226,389)	\$ 33.31	(197,089)	\$ 32.59
Exercised	(47,822)	\$ 19.58	(434,132)	\$ 19.88
Options outstanding at end of year	2,496,777	\$ 30.37	2,338,367	\$ 30.06
Options exercisable at end of year	1,703,581	\$ 30.38	1,595,257	\$ 30.48

The following table summarizes information about stock options outstanding at December 31, 2004:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$11.746 to \$15.718	64,597	1.9	\$14.20	64,597	\$14.20
\$19.125 to \$20.079	79,995	3.1	\$19.96	79,995	\$19.96
\$21.768 to \$25.552	144,561	4.1	\$22.93	144,561	\$22.93
\$26.790 to \$34.900	1,811,476	7.5	\$30.89	1,018,280	\$31.31
\$35.250 to \$38.100	396,148	6.1	\$35.43	396,148	\$35.43
	2,496,777		\$30.37	1,703,581	\$30.38

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**15. CAPITAL STOCK (Continued)**

*Stock option plan (continued)*

The table below shows the assumptions used to determine compensation expense for stock options issued using the Black-Scholes option pricing model.

December 31	2004	2003
Weighted-average fair value per option granted	<b>\$6.42</b>	\$5.07
Assumptions		
Dividend yield	<b>3.38%</b>	4.10%
Expected volatility	<b>21.30%</b>	23.30%
Risk-free interest rate	<b>4.24%</b>	4.44%
Expected lives	<b>7.78 years</b>	7.78 years

For the year ended December 31, 2004, compensation expense related to stock options granted in the amount of \$1.1 million (2003 - \$0.4 million) was recorded.

*Performance share unit plan*

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

Performance share units granted during the year were 50,193 (2003 – 61,121), performance share units that were exercised during the year were 1,992 (2003 – nil) with total share units outstanding at December 31, 2004, of 109,322 (2003 – 61,121). For the year ended December 31, 2004, compensation expense related to the performance share units granted in the amount of \$0.9 million (2003 - \$0.5 million) was recorded.

*Employees' stock savings plan*

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

## **15. CAPITAL STOCK (Continued)**

### *Employees' stock savings plan (continued)*

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

The total number of common shares bought for employees during the year ended December 31, 2004, was 1,049,000 (2003 - 1,022,000). For the year ended December 31, 2004, compensation expense related to the employees' stock savings plan of \$6.0 million (2003 - \$6.1 million) was recorded.

## **16. SEGMENTED INFORMATION**

We operate through the following 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., DownEast Ltd and Aliant ActiMedia.

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

*Corporate and others* – mainly includes the operations of Aliant Inc. as a corporate entity. This line of business does not carry on any significant operations and has no major sources of income or assets of its own, other than the interest it holds in its subsidiaries and joint venture. These are accounted for using the equity method.

Our operations, including most of our revenue, assets and goodwill, are located in Canada. Our segments are organized by products and services, and reflect how we managed our operations. The accounting policies of the segments are the same as those described in note 1, except as noted above. We evaluate performance based on a number of financial and non-financial indicators including net income, return on equity and revenue growth.

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

The Remote Communications and Emerging Business segments were divested of during 2003 and are included in prior year discontinued operations as discussed in note 18. For reporting purposes, the prior period segmented information has been restated.

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**16. SEGMENTED INFORMATION (Continued)**

For the year ended December 31, 2004 <i>(thousands of dollars)</i>	Telecom- munications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	\$ 1,794,876	\$ 237,126	\$ 1,413	\$ -	\$ 2,033,415
Intersegment revenue	7,143	106,339	-	(113,482)	-
Operating revenues	1,802,019	343,465	1,413	(113,482)	2,033,415
Operating expenses	1,045,824	321,887	29,145	(112,104)	1,284,752
Depreciation	391,035	8,482	1,217	(3,397)	397,337
Restructuring charge	65,043	5,798	1,447	-	72,288
Other income (expenses)	(844)	1,419	148,080	(143,732)	4,923
Interest charges	74,459	727	5,272	(5,419)	75,039
Income taxes (recovery)	72,217	1,270	(4,014)	634	70,107
Non-controlling interest	1,773	1	-	-	1,774
<b>Net income from continuing operations</b>	<b>\$ 150,824</b>	<b>\$ 6,719</b>	<b>\$ 116,426</b>	<b>\$ (136,928)</b>	<b>\$ 137,041</b>
Net income from discontinued operations	-	-	-	-	-
<b>Net income</b>	<b>\$ 150,824</b>	<b>\$ 6,719</b>	<b>\$ 116,426</b>	<b>\$ (136,928)</b>	<b>\$ 137,041</b>
Purchase of capital investments	\$ 289,260	\$ 5,460	\$ 240	\$ -	\$ 294,960
Goodwill acquired	\$ 28,626	\$ 353	\$ -	\$ -	\$ 28,979
<b>Total assets</b>	<b>\$ 2,690,183</b>	<b>\$ 144,552</b>	<b>\$ 1,844,725</b>	<b>\$ (1,742,359)</b>	<b>\$ 2,937,101</b>
<hr/>					
For the year ended December 31, 2003 <i>(thousands of dollars)</i>	Telecom- munications	Information Technology	Corporate and others	Eliminations	Consolidated
Revenue from external customers	\$ 1,809,471	\$ 248,459	\$ 1,121	\$ -	\$ 2,059,051
Intersegment revenue	10,334	107,174	-	(117,508)	-
Operating revenues	1,819,805	355,633	1,121	(117,508)	2,059,051
Operating expenses	973,048	348,498	25,172	(117,018)	1,229,700
Depreciation	381,310	11,755	1,070	(3,538)	390,597
Restructuring charge	-	14,550	-	-	14,550
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
<b>Net income (loss) from continuing operations</b>	<b>\$ 231,133</b>	<b>\$ (12,201)</b>	<b>\$ 449,963</b>	<b>\$ (474,026)</b>	<b>\$ 194,869</b>
Net income from discontinued operations	\$ 1,246	-	\$ 110,096	-	\$ 111,342
<b>Net income (loss)</b>	<b>\$ 232,379</b>	<b>\$ (12,201)</b>	<b>\$ 560,059</b>	<b>\$ (474,026)</b>	<b>\$ 306,211</b>
Purchase of capital investments	\$ 330,680	\$ 3,445	\$ 1,676	\$ -	\$ 335,801
Goodwill acquired	-	-	-	-	-
<b>Total assets</b>	<b>\$ 2,758,794</b>	<b>\$ 160,909</b>	<b>\$ 1,970,450</b>	<b>\$ (1,823,860)</b>	<b>\$ 3,066,293</b>

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**16. SEGMENTED INFORMATION (Continued)**

*Revenue from external customers by product and service:*

For the year ended December 31 <i>(thousands of dollars)</i>	<b>2004</b>	2003
Telecommunications		
Local	\$ 750,251	\$ 765,041
Long distance	341,366	383,969
Wireless	386,361	332,518
Internet	119,089	106,584
Directory	49,542	46,330
Product	109,738	122,266
Other telecommunications	38,529	52,763
	<b>1,794,876</b>	1,809,471
Information Technology		
Fulfillment	125,614	121,787
IT services	111,512	126,672
	<b>237,126</b>	248,459
Other	1,413	1,121
	<b>\$ 2,033,415</b>	\$ 2,059,051

**17. OTHER INCOME (EXPENSES)**

For the year ended December 31 <i>(thousands of dollars)</i>	<b>2004</b>	2003
Interest income	\$ 13,139	\$ 13,066
Accounts receivable securitization (note 3)	(3,316)	(4,476)
Provincial large corporation tax	(4,705)	(4,536)
Gain on disposal of business units (note 2)	1,262	-
Writedown of portfolio investments and related assets	-	(13,315)
Miscellaneous income (charges)	(1,457)	1,058
	<b>\$ 4,923</b>	\$ (8,203)

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

---

**18. DISCONTINUED OPERATIONS**

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

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

For reporting purposes, the prior period results of operations of the Emerging Business and Remote Communications segments are presented as discontinued operations, including segmented information as disclosed in note 16.

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

---

For the year ended December 31 <i>(thousands of dollars)</i>	<b>2004</b>	2003
Operating revenues	\$ -	\$ 546,806
Operating expenses	-	479,158
Gain on disposal	-	121,131
Other expenses	-	21,958
Interest on long-term debt	-	19,689
Income tax	-	23,050
Non-controlling interest	-	12,740
Net income from discontinued operations	\$ -	\$ 111,342

---

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**19. EARNINGS PER COMMON SHARE**

For the year ended December 31 <i>(thousands of dollars, except per share amounts)</i>	2004	2003
Net income applicable to common shares:		
Net income from continuing operations	\$ 137,041	\$ 194,869
Preferred share dividends	(9,537)	(9,538)
Net income applicable to common shares from continuing operations	\$ 127,504	\$ 185,331
Net income from discontinued operations	-	111,342
Net income applicable to common shares	\$ 127,504	\$ 296,673
<b>Basic:</b>		
Weighted average number of common shares outstanding	132,740	137,581
Basic earnings per common share from continuing operations	\$ 0.96	\$ 1.35
Basic earnings per common share from discontinued operations	-	0.81
Basic earnings per common share	\$ 0.96	\$ 2.16
<b>Diluted:</b>		
Weighted average number of common shares outstanding	132,740	137,581
Impact of outstanding stock options	-	-
	132,740	137,581
Diluted earnings per common share from continuing operations	\$ 0.96	\$ 1.35
Diluted earnings per common share from discontinued operations	-	0.81
Diluted earnings per common share	\$ 0.96	\$ 2.16

The impact of outstanding stock options represents common shares issuable under the terms of our stock option plan that have a exercise price that is lower than the average market value during the period. There was no impact on diluted earnings per common share in 2004 or 2003. Refer to note 15 for details of our stock option plan.

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

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

For the year ended December 31 <i>(thousands of dollars, except per share amounts)</i>	<b>2004</b>	2003
Pro-forma net income applicable to common shares:		
Net income from continuing operations	\$ 137,041	\$ 194,869
Pro-forma adjustments	(1,233)	(1,255)
Pro-forma net income from continuing operations	\$ 135,808	\$ 193,614
Preferred share dividends	(9,537)	(9,538)
Pro-forma net income applicable to common shares from continuing operations	\$ 126,271	\$ 184,076
Net income from discontinued operations	-	111,342
Pro-forma net income applicable to common shares	\$ 126,271	\$ 295,418
<b>Basic:</b>		
Weighted average number of common shares outstanding	<b>132,740</b>	137,581
Pro-forma basic earnings per common share from continuing operations	\$ 0.95	\$ 1.34
Pro-forma basic earnings per common share from discontinued operations	\$ -	\$ 0.81
Pro-forma basic earnings per common share	\$ 0.95	\$ 2.15
<b>Diluted:</b>		
Weighted average number of common shares outstanding	<b>132,740</b>	137,581
Impact of outstanding stock options	-	-
	<b>132,740</b>	137,581
Pro-forma diluted earnings per common share from continuing operations	\$ 0.95	\$ 1.34
Pro-forma diluted earnings per common share from discontinued operations	\$ -	\$ 0.81
Pro-forma diluted earnings per common share	\$ 0.95	\$ 2.15

The fair value of the 2002 stock options granted are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used:

December 31	2002
Dividend yield	3.10%
Expected volatility	24.60%
Risk-free interest rate	5.08%
Expected lives	7.78 years

## **20. FINANCIAL INSTRUMENTS**

### *Risk management*

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

### *Credit risk*

We are exposed to credit risk with respect to accounts receivable from customers, but the concentration of this risk is minimized because we have a large and diverse customer base. We have credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintain provisions for potential credit losses that are assessed on an ongoing basis. Refer to notes 1 and 3 for details on the transfer of receivables.

### *Currency exposures*

In order to reduce our exposure to foreign currency risk on material contracts denominated in foreign currency, we use forward rate contracts or similar hedging arrangements.

At December 31, 2004 we had contracts outstanding to sell 1.4 million Euro in 2005 at a rate of 1.6415 Canadian dollars per one Euro (December 31, 2003 – nil).

### *Interest rate exposures*

Our long-term debt consists primarily of fixed interest rate financing. In order to diversify our sources of interest rate risk and manage the overall cost of borrowing we entered into interest rate derivative transactions and are therefore subject to risks associated with fluctuating interest rates. We had the following derivative instruments outstanding at December 31, 2004:

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

**ALIAN INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**20. FINANCIAL INSTRUMENTS (Continued)**

*Interest rate exposures (continued)*

- Interest rate swaption – We have also entered into swaption transactions related to two outstanding issues of long-term debt with a total notional amount at December 31, 2004, of \$90.0 million (2003 - \$90.0 million). The swaptions grant an option to the counterparty in the transaction to enter into an interest rate swap transaction with us on the call dates of the two underlying debt instruments. If exercised, these swaptions will involve us paying the underlying fixed interest rates on the debt instruments of 10.45 per cent and 11.125 per cent, respectively, in exchange for receiving the three-month Bankers' Acceptance floating interest rate from the call dates in 2006 until maturity in 2013. In exchange for providing the counterparty with these options, we received premium income payments from the counterparty of \$7.6 million in 2001 and \$5.4 million in 1997. This premium income is being amortized against interest charges over the period to maturity of the underlying debt issues. The remaining unamortized premium income as at December 31, 2004, of \$8.4 million (2003 -\$9.4 million) is recorded as a deferred credit.

*Fair value*

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

The carrying value of all financial instruments approximates fair value with the exception of the following:

As at December 31 (thousands of dollars)	2004		2003	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	\$ 896,385	\$ 1,104,637	\$ 990,059	\$ 1,173,600
Interest rate derivative financial instruments, net liability position	\$ (8,426)	\$ (27,500)	\$ (9,447)	\$ (24,700)

**ALIAN T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

**21. COMMITMENTS**

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

<i>(thousands of dollars)</i>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Thereafter</b>
Operating leases	\$ 45,880	\$ 41,404	\$ 36,995	\$ 35,454	\$ 33,468	\$ 148,465
Purchase commitments	39,660	8,849	2,620	1,817	1,854	-
	\$ 85,540	\$ 50,253	\$ 39,615	\$ 37,271	\$ 35,322	\$ 148,465

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

**22. RELATED PARTY TRANSACTIONS**

Bell Canada, which is owned 100 per cent by BCE Inc., beneficially owns and controls 53.22 per cent (2003 – 53.50 per cent) of our outstanding common shares as at December 31, 2004.

In the normal course of business, we provide and purchase telecommunications and other services, and purchase capital investments from controlled investees of Bell Canada at the exchange amounts as follows:

<b>As at December 31</b> <i>(thousands of dollars)</i>	<b>2004</b>	<b>2003</b>
Operating revenues	\$ 139,625	\$ 149,636
Cost of operating revenues and operating expenses	\$ 122,177	\$ 97,046
Capital investments	\$ 5,389	\$ 3,277

Common shares of Aliant Inc. purchased at market value from Bell Canada under a normal course issuer bid, as described in note 15, were as follows:

<b>As at December 31</b> <i>(thousands of dollars, except as otherwise noted)</i>	<b>2004</b>	<b>2003</b>
Number of common shares purchased	827,497	2,643,070
Value	\$ 24,152	\$ 83,388

**ALIAN'T INC.**  
**Notes to the consolidated financial statements**  
**December 31, 2004**

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

Balances with controlled investees of Bell Canada are as follows:

<b>As at December 31</b> <i>(thousands of dollars)</i>	<b>2004</b>		<b>2003</b>	
Cash and cash equivalents	\$	<b>185,000</b>	\$	-
Accounts receivable	\$	<b>30,961</b>	\$	13,792
Payables and accruals	\$	<b>6,350</b>	\$	8,579
Deferred credits	\$	<b>1,850</b>	\$	-

As at December 31, 2004, included in cash and cash equivalents were notes receivable with Bell Canada in the form of a revolving loan that matures on the first day of each month and can be recalled at any time, bearing interest of 2.56 per cent per annum.

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

**23. JOINT VENTURE**

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

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

<b>As at December 31</b> <i>(thousands of dollars)</i>	<b>2004</b>		<b>2003</b>	
<b>Consolidated statements of income</b>				
Operating revenues	\$	<b>49,542</b>	\$	46,330
Expenses		<b>19,117</b>		17,520
Net income	\$	<b>30,425</b>	\$	28,810
<b>Consolidated balance sheets</b>				
Current assets	\$	<b>36,122</b>	\$	31,697
Long-term assets		<b>278</b>		288
Current liabilities		<b>4,628</b>		5,193
Net investment	\$	<b>31,772</b>	\$	26,792
<b>Consolidated statements of cash flows</b>				
Operating activities	\$	<b>2,260</b>	\$	666
Investing activities		<b>(77)</b>		(89)
Net cash flow	\$	<b>2,183</b>	\$	577

Included in cash flow from operating activities are cash distributions received by us from Aliant ActiMedia of \$25.4 million for the year ended December 31, 2004 (2003 - \$27.8 million).

## **24. CONTINGENCIES**

- (a) On April 24, 2000, an action was commenced against us by 132 former employees who took early retirement under a 1998 early retirement incentive program. The former employees seek damages in the amount of the difference between what they received upon retirement in 1998 and what they would have received had they retired under the 1999 early retirement incentive program. We feel we have strong defences and are contesting the claim. The outcome of this matter is not determinable at this time.
- (b) We have had an action commenced against us by Exigen Ltd. ("Exigen") in the State of California. The action stems from the sale of Connectivity Contact Centre Solutions Inc. to Exigen, the termination of certain commercial agreements and claims of interference with Exigen's commercial relations. In its formal Complaint, Exigen seeks US\$30 million in specified damages and other damages to be presented. A preliminary issue concerns whether Canada is the proper place to bring the action instead of California. Accordingly, we have started an action in New Brunswick against Exigen and its Canadian operating subsidiary seeking adjudication of many of these issues. We feel we have strong defences and have accrued what is deemed by management to be adequate reserves.
- (c) On August 9, 2004, a lawsuit was filed in Saskatchewan against several Canadian wireless and cellular service providers, including Aliant Telecom Inc. The suit is brought by several alleged customers or former customers of the defendants, who seek court permission to proceed by way of class action under the Saskatchewan Class Actions Act. The claim relates to certain system access fees that the defendants charge to their customers. In the claim, the plaintiffs allege, among other things, breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations under the Competition Act (Canada) in relation to the system access fees, and seek unspecified damages, including punitive and exemplary damages. The certification hearing has been scheduled for April 2005, although it is not currently known whether the proceeding will actually be brought forward as a class action. While the plaintiffs counsel have indicated that they intend to litigate this matter in Saskatchewan, during the fourth quarter of 2004 they also filed identical lawsuits in several other provinces. We feel we have strong defences to this claim, but the outcome of this matter is not determinable at this time.

#### **24. CONTINGENCIES (Continued)**

- (d) On October 19, 2004, Aliant Telecom Inc. was added as a third party in a lawsuit brought by Canada Life Assurance Company ("Canada Life") in the Supreme Court of Nova Scotia against the Province of Nova Scotia. The claim arises from 1999, when an Aliant Telecom predecessor corporation, Maritime Tel & Tel Limited, assisted the Province of Nova Scotia in setting up a wide area network system, and in obtaining the financing for the related equipment acquisition. In July 2004, Canada Life sued the Province seeking payment arrears of \$0.8 million and accelerated payments under the equipment financing agreement of \$23.2 million. The Province alleges that Aliant Telecom acted as consultants to the Province and should provide indemnification. Counsel is currently reviewing the matter and preparing Aliant Telecom's defence. The outcome of this matter is not determinable at this time.
- (e) On May 30, 2002, the CRTC released its price cap decision that prescribed new rules to determine the rates charged for certain telecommunications services provided by incumbent local exchange carriers (ILECs) for the four years beginning June 1, 2002. The price caps decision requires the use of a new mechanism, the deferral account, to mitigate the potential adverse effects on competition in the local market as a result of mandated rate reductions. The deferral account may be reduced by one or a combination of the following:
- Rate reductions for residential local services that are proposed as the result of competitive pressures;
  - Certain rate reductions for services provided to competitors;
  - The approval of exogenous factors for matters beyond control of the ILECs;
  - Rate increases less than the amount by which inflation exceeds productivity;
  - Subscriber rebates; and
  - Funding initiatives that would benefit residential customers in other ways.

We await clarification from the CRTC regarding application of the deferral account rules and allowable cost mitigation features. Accordingly, we have not recognized the deferral account as a liability in our financial statements. Given the circumstances outlined, we estimate the deferral account balance could be between \$3 million and \$37 million. A liability, should one arise, will be charged to operating income or capital investments, as appropriate.

#### **25. COMPARATIVE FIGURES**

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